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DETENTION CAMP

A FIRST COURSE OF INDIAN ECONOMICS

(With up-to-date University Questions & Answers)

BY

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Second Edition.

(Thoroughly revised and enlarged)

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To

My Father

PREFACE.

This book is intended for the use of B. A. students (both pass and honours) of Indian Universities. It endeavours to deal with the intricate problems of Indian Economics in a lucid manner. Efforts have been made to cover the University Syllabus within this small compass and to avoid unnecessary details which have been the cause of much confusion and misunderstanding among students. The different views on disputed problems have been placed side by side in order to give the students an opportunity of forming their independent opinions. To enhance the usefulness of this book University Questions of that last twenty years have been given at the end of each chapter and sections containing the answers have been referred to. The author earnestly believes that a careful study of this small book will enable the students to tackle any question that may be set at the examination.

The author acknowledged his indebtedness to the eminent authors of all the standard books on the subject which he has freely consulted in writing these pages.

BELIACHANDI
4th March, 1929. THE AUTHOR

PREFACE TO THE SECOND EDITION.

The demand for the second edition has given the author an opportunity of revising the book thoroughly and adding new matters with a view to make it an exhaustive treatise on Indian Economics. The old arrangement has been retained as far as practicable. The complicated problems of currency and exchange have been discussed in a lucid manner. The edition contains up-to-date informations on the subject and the old satistics have been replaced by new figures. The reports of recent Committees and Commissions have been summarised in the appendix. The University questions for the last twentythree years have been given at the end of each chapter and sections dealing with them have been referred to.

BALIACHANDI,
November, 1931. THE AUTHOR.

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A First Course of Indian Economics

Introduction

CHAPTER I

THE ECONOMIC SCIENCE AND ITS SCOPE

Sc. 1. What is Indian Economics.

There is a good deal of confusion with regard to the exact significance of the expression "Indian Economics." Sometimes it has been used in the sense of a body of doctrines laid down in ancient works like *Arthasastra, Varta etc* Again it is used to mean a body of rules that have evolved out of conditions of Indian life. Sir Theodore Morrison wrote in his "Industrial Organisation of an Indian Province", thus—"when we approach the study of economic phenomena of India we must bear in mind that we are about to deal with a type of Industrial organisation which is not the type tacitly assumed in most text books upon abstract Economics". Thus, Theodore Morrison is of opinion that laws of Economics as enunciated by the western writers cannot be applied to Indian condition; a separate body of rules should be deduced from the facts of Indian life. This body of rules constitutes, according to his opinion, what is known as Indian Economics. Mr. M. G. Ranade holds the same view. Lastly it has been used to mean application of Economic Science to the Indian condition and the ascertainment of their modifications and limitations. This is the proper sense in which the term "Indian Economics" is often used at the present time. The popularity of this sense is due

Three different senses in which the term Indian Economics is used—

(i) Rules embodied in books like Arthasastra.

(ii) the view of Theodore Morrison—that it consists of peculiar kinds of rule applicable to Indian conditions alone.

(iii) the rules of Economic science as applied to Indian condition with slight modifications.

to the fact that in course of time the conditions of economic life of India have become in a great measure similar to those of the western world and in consequence, the economic laws deduced from the facts of western life can be applied to Indian conditions with some qualifications and limitations.

Sc. 2. The Indian School of Economics : why should there be a separate School.

View of the Classical School.

The classical School of Economics ignored the part that nationality played in the economic life of a nation and opined that economic doctrines were universally applicable. Thus according to this school the economic laws of Great Britain would equally hold good in India and if this opinion is accepted there cannot possibly be any room for a separate school such as the Indian School of Economics. True it is that there are some economic doctrines such as *mobility of labour and capital* which can claim universality but there are others which will vary according to peculiar customs, laws and institutions of a country.

The Indian School of Economics is the outcome of a protest. The characteristic feature of this school is an intensely patriotic conception of the requirements.

The Indian school of economics has been the resultant of continuous protest against the policy of Economic Imperialism adopted by the rulers of India. India being a dependency of Great Britain, its interests have been sacrificed to those of Great Britain. This fact has led many educated and patriotic Indians to study the economic condition of India and to suggest schemes which are really suited to the material conditions of the people of India. Prof. V. G. Kale writes thus—"The distinctive feature of the Indian school of thought is its intensely patriotic conception of the country's requirements in the sphere of meterial progress and the characteristically national interpretation of the facts of Indian life."

Sc. 3. Importance of the Study of Indian Economics.

The importance of the study of Indian Economics will be evident if we consider the important subjects dealt with in this science. It comprises a discussion of subjects like trade and industry, the fiscal arrangements of the government, the system of currency and such other problems which are vitally connected with the material progress of India. The Indians should take a keen interest in studying economic phenomena and propose schemes which will be beneficial to the interest of India. It is not always prudent to leave such an important subject to the care of the governing authorities because, as experience shows, they are prompted much more by the desire of benefiting their own country at the cost of India than by any earnest desire for the welfare of our own country. Again the government of a country, specially the government of India which is very busy in its own sphere i. e., —with the maintenance of 'peace and order' can not be expected to devote much time and energy for the Economic development of India. Under these circumstances India has no chance of succeeding in the "keen competitive race" now going forward in this world unless the people are educated enough to understand economic problems of the country and attempt a solution thereof.

It deals with important subjects like the condition of Indian trade and industry, the system of currency and the nature of fiscal arrangements.

Why the people of India should take keen interest in the economic problems.

Se. 4. The Scope of Indian Economics.

The Scope of Indian Economics is not different from that of the Science of Economics. It deals with all those subjects that are discussed in a book on general Economics. We know that the science of Economics has been divided into four important parts—Consumption, Production, Distribution and Exchange. A treatise on Indian Economics cannot do away with any

The scope of Indian Economics includes a discussion of the nature of Indian consumption, production, distribution and exchange.

of these four points. In order that it may be all comprehensive it must deal with the nature of consumption which in a way measures the standard of life of the Indians. It cannot omit an elaborate discussion of the nature of Indian production which shows the economic development of the country. Again, it can not ignore the importance of the problem of distribution and exchange because on the proper solution of these questions depend the prosperity of the country and the happiness of its population. This point has been very nicely stated by an eminent writer on the subject, thus—"the problem of population is not of mere size but of efficient production and equitable distribution."

It deals with peculiar institutions

The Indian Economics also gives us an idea of the people of India with their peculiar institutions such as *caste system* and *joint family system* and points out the part that these institutions play upon their economic life. It tells us how far the economic principles of the civilized countries are applicable to India and suggests methods which would improve Indian organisation.

Sc. 5. The Slow Growth of Indian Economics.

The slow growth of science has been due to two groups of causes—

Though on account of the presence of ancient treatises like Kautilya's *Arthasastra* we cannot be so dogmatic as to assert that the science of Economics was unknown to India before the Christian era yet it is certain that the development of the science was postponed till the advent of the English and the establishment of British rule in India. Very many causes have been responsible for this slow growth of Indian Economics. It will be convenient to divide these causes into two groups—the first group containing those causes that operated in ancient India and the second one comprising those that still exert their inflnence.

(1) causes that operated in ancient India

One of the most important of the earlier causes is the spiritualisitic temperament of the people of ancient India. "Simple living and high thinking" was the ideal and in consequence, the economic problems could not become so very prominent in those days. The second important cause was that the pressure of population on land was less in those days. People could cultivate as much land as they wished and the law of Diminishing Return did not play an important part.

(2) those operating at the present time. The illiteracy of the population has also been responsible for the slow growth of the science. There are other obstacles such as want of statistical figures and unfavourable attitude of the people.

Besides the above two important causes which were responsible for the slow growth of the science in ancient India there are obstacles which stand in the way of its development at the present time.

(1) One such obstacle is the illiteracy of the people which makes it impossible for them to understand economic problems and to attempt solution thereof.

(2) Another important obstacle is the want of statistical figures which may help us in studying the economic conditions of India.

(3) The third obstacle consists in the form of Government which scarcely and reluctantly allows the people to take part in the political and economic administration of the country.

(4) Another difficulty lies in the complexity of Indian problems—a complexity which is due to the fact that India is now in a state of transition. The introduction of western methods of production is causing rapid changes in the economic life of the people but this change has not been uniform in every part of this country.

(5) The next obstacle is the want of systematic study of economic phenomena which helps the growth of individual opinion. The people are often influenced by the opinion of the party to which they belong and do not care even to learn how far their opinions are valid.

(6) Lastly, the policy which the Government and the Anglo-Indians adopted in the earlier stage of British rule without consulting the public opinion hampered considerably the progress of the science and was responsible for the enormous loss which India sustained in those days.

Questions and Answers.

1. What is the sense in which the expression "Indian Economics" is generally used by the people.

Ans. *See*—Sec. 1.

2. Why is it necessary that Indians should take a keen interest in the study of Indian Economics.

Ans. *See*—Sec. 3.

3. Describe briefly the scope of the Science.

Ans. *See*—Sec. 4.

4. Account for the slow growth of Indian Economics.

Ans. *See*—Sec. 5.

CHAPTER II

NATURAL ENVIRONMENT

Sc. 1. Physical feature of India.

The physical feature of India, as of every other country, plays a very important part in its economic development. It determines the character of its population and moulds the destiny of its inhabitants.

Its area:—India is about 1,800,000 square miles in area. It is, in its size, fifteen times as large as the United Kingdom and is equal to the whole of Europe without Russia. The whole of this area is not under British administration. The part that is under British rule comprises an area of about 1,094300 square miles.

The area of British India.

Its boundary :—India is protected on all sides by natural barriers. The existence of the Himalayas on the north protects it from Chinese invation. On the east there lie Assam and Burma and on the west there exist the Hindukush, Suleiman and the desert Plateau. There are sea boundaries of about equal length—the Bay of Bengal on the east and the Arabian sea on the west.

Protected on all sides by natural barriers.

Sc. 2. Its trade Facilities.

India is most favourably situated for purposes of trade. Situated as it is at the centre of the eastern Hemisphere and at the head of the Indian ocean it is connected by trade with almost all the industrial countries of the world. But India is not in a position to reap all the benefits of a favourable situation on account of the fewness

India is favourably situated for trading purposes.

Four important openings, into the land.

of ports and harbours on the Coast line. Again, what ports and harbours there are they are not easy of defence. Another important fact to be noticed in this connection is that there are only four important openings into the land *viz.*—(1) the gulf of Martaban, (2) the gulf of Manar, (3) the gulf of Cutch and (4) the gulf of Combay.

Five important ports.

The ports which play an important part in facilitating India's trade with foreign countries are five in number. They are located in Calcutta, Madras, Bombay, Karachi and Rangoon. As early as 1903 Sir John Strachey gave us an idea of India's foreign trade in the following words:—"The development of the foreign trade of India during the last half century has been very great, and it affords a remarkable illustration of the increase in the meterial wealth of the country. In 1840 the total value of the sea-borne trade was about £20,000,000, in 1900-01 it was nearly £152,000,000." The sea-board of India also helps greatly the exchange of commodities between the coast districts of the country. Again, there are several rivers which penetrate the different parts of this country and with the help of boats and steamers afford some facilities of transport.

Roads and Railways facilitate trade.

The importance of roads and Railways in the sphere of the internal trade of India can never be exaggerated. The condition of these roads was precarious in ancient India. With the establishment of British rule in India great progress was made towards remedying the evil by the construction of metalled roads and railway lines.

Sc. 3. It is a Continent

Sir John Strachey has described India as a continent. This is because it contains men of various nationalities, speaking different languages, with varieties of customs and religious faith. The people of this country may be grouped mainly under seven races and the reli-

gion they profess may be classified under ten broad heads. But inspite of these divergences India may be regarded as a country that is inhabited by people of a single nationality. Prof. V. G. Kale remarks "The India with which we have to deal as an economic unit is a sub-continent being hammered into a nation and is therefore a subject of study of unique interest. With the North-West Frontier Province on one side and Burma on another it is like a federation of peoples whose natural and artificial boundaries are being levelled down by the unifying process of modern civilisation and of one common law and government." The Hindus and the Muhamedans, for instance, although they belong to different communities having conflicting interest in almost every sphere of life enjoy, as citizens of a state, the same political rights and are subject to the same political obligations.

It contains men of different nationalities. Still Kale calls it an economic unit.

Sc. 4. The Natural Division

Geographically speaking the whole of India has been naturally divided into four well-marked parts each of which has distintive physical characteristics and economic importance. The four divisions may be described as follows—

India has been divided into four well-marked parts

(1) The Mountain region of the north
(2) The Indo-Gangetic Plain
(3) The Deccan Plateau
(4) Burma

(1) The Mountain-region of the North.

The Himalayas run to the south-east of this region. It is well-known for its variety of climate and it is said that one will experience as many variations in temperature as can be found by him while he passes from the equator to the pole.

The Himalayas with all itsvariations in temperature run to the south-east of this region.

The Economic importance of the Himalayas can never be exaggerated.

The economic importance of this mountain range can not be exaggerated. (*a*) It serves as a natural barrier and protects India from Chinese invasion. (*b*) It helps agriculture by obstructing the clouds that bear moisture and thereby causing some portion of them to come down as rains. (*c*) Some part of the moisture that becomes frozen into snow serves as a source from which the rivers can draw water. (*d*) The water-power furnished by the mountain streams can be utilised in generating electricity which is a great help to the neighbouring mill-industry. (*e*) The variety of climates in different parts of it has facilitated the growth of agricultural products of various kinds. (*f*) The forests that have grown on it arrest large quantity of water during the rainy season and thereby supply the streams with water during the dry season. (*g*) The cold climate of this region attract men of position specially during summer when it is impossible to live in the other parts of India. The scenery of the Himalayas is pleasant and has been highly spoken of by European tourists.

The forest parts arrest large quantity of water during the rainy season.

There are several passes across the mountain ranges.

Besides the Himalayas there are other mountains to the south-west of this region. There are several passes across these mountain ranges. These passes, of which the Khaiber, the Gumal and the Bolan are well-known, serve as routes through which India's foreign trade with Afganisthan is carried on.

(2) *The Indo-Gangetic plains.*

The Indo-Gangetic plains with the three important rivers that they contain.

This plain is bounded by the Himalayas on the north, the Bay of Bengal and the Vindhyas on the south, and the Hindukush on the west. The economic importance of this part of the continental India is due to the existence of three great rivers—(*i*) the Ganges. (*ii*) the Indus and (*iii*) the Brahmaputra.

(i) *The Ganges*—This river has been described as one of "the greatest waterways in this world." It is as important to India as the Thames is to England. Before the introduction of Railways it was almost the sole channel of traffic between upper India and the sea-board. It serves the purpose of irrigation and fertilises the soil by the deposit of silt that it carries with it. It is for these manifold advantages conferred by the Ganges that a sort of religious sanctity has been attached to it.

Described as the greatest waterways in this world.

(ii) *The Indus*—This river which, flowing through Tibet and Kashmere, enters into the Panchanad cannot be favourably compared with the Ganges so far as the economic importance is concerned ; yet its importance for agricultureal developments cannot be ignored. It facilitates the growth of many principal crops such as rice, jute, wheat, barley and sugar etc. by the creation of alluvial plains which extend over a number of provinces.

This river helps agriculture by the creation of alluvial soils.

(iii) *The Brahmaputra*—This river is very important for the facilities that it affords for steamer traffic between Assam and Bengal. It becomes an Indian river when it crosses the mountains in the north-east Assam.

The above rivers are useful in this sense that they remove in a great measure the difficulty of irrigation and add to the fertility of the soil. They have also done away with that economic isolation which hampers material progress ; but the defects inherent in them can never be ignored. They have been destroyers of land which lies adjacent to its bank. They change their course constantly with the result that their banks can scarcely develop as trade centres. They seldom allow big steamers to ply in them without any risk.

(3) *The Deccan Plateau*

The plateau is triangular in shape.

Rivers are almost dry during the summer

The Deccan Plateau is triangular in shape having for its base the Vindya ranges, and for its apex the Cape Comorin; and the two other sides are represented by the Eastern and Western Ghats. There are several rivers which pass through this area; but as most of them depend upon rainfall for the supply of water they become almost dry during the summer. Thus these rivers cannot be profitably used for the purposes of navigation. The general slope of the table lands determines the courses of the rivers. The slope being generally from west to east, the great rivers like Mahanadi, Kaveri and several others flow into the Bay of Bengal.

Cinchona trees and cocoanut palms are to be found in abundance.

Products—The Deccan is famous for its rich forest, Cinchona trees and the Cocoanut palms. The table land is suitable for the growth of sugarcane, tobacco, oilseeds and several other crops. Rice is produced in the Madras coast but the most important product is cotton. The warm damp hill-sides in the south are favourable for the growth of tea and coffee plants. Moreover, the Plateau is rich in mineral products, the most important of which are coal, iron, gold, mica etc.

The Deccan suffers greatly from one difficulty. The rain-fall is very uncertain in this part of India and in consequence, it is frequently visited by terrible famines.

(4) *Burma*

Why Burma requires separate treatment

Burma is generally a mountaneous country. It deserves a separate treatment, first because it is completely separated from the subcontinent of India by seas and mountains and secondly because it is inhabited by people whose religion and manners differ fundamentally from those of the people of the main land.

This area does not suffer from drought. The rainfall is certain and the rivers do not become dry during the summer season. These are the reasons why rice grows plentifully in this part of India. Besides rice there grow other products as well e. g. cotton, tobacco and sugarcane.

The natural condition is favourable to the growth of agricultural crops.

Burma is well-known for its mineral resources. Petroleum can be had on the bank of the Irrawadi which is the principal river in Burma. There are also important mines of rubies.

Sc. 5. Indian Monsoons and the Rainfall.

India is mainly an agricultural country and the prosperity of the country is intimately conected with the development of its agricultural industries; but these industries cannot flourish if there is no adequate supply of water. Water that is necessary for this purpose can be supplied in two different ways—(1) by irrigation and (2) by rainfall. The former method cannot be taken recourse to in every part of India because the lands are not always suitable for the purposes of irrigation. India, therefore, has to depend for its water-suply mainly upon rainfall.

Importance of rainfall specially in those parts where irrigation is not possible.

The rain-fall in India is largely influenced by the monsoons. The monsoons are nothing but the winds that carry the water-laden clouds. There are two such currents, the south-west monsoon and the north-east monsoon. The scientific reason that can be attributed to the origin of each of the two currents is that moist air always replaces the hot air. Just in the beginning of summer season the land warms up more than the sea. The result of this natural phenomenon is that moist air from the sea comes and replaces the hot and dry air above the earth. This moisture then is formed into clouds and is carried northward by a wind which comes from the south. As this wind comes from the ocean

Causes of rainfall. Two monsoon currents the southwest and the north-east. How these two currents originate? The south-west current can be divided into three separate currents. (1) the Bombay current

(2) the Bengal current. (3) the Burma current.

it is laden with moisture. This is the south-west monsoon which lasts from May to September. The direction of the wind is not everywhere the same. This leads to the division of the current into three separate currents—(1) the Bombay current, (2) the Bengal current (3) the Burma current.

The Bombay current first comes into collision with the Ghats and is responsible for the heavy shower of rain there, but going further up to Sind, Rajputana and the Punjab it yields little or no rain.

The Bengal current gives heavy downpours to Bengal, Behar and Assam till at last it is arrested by the Himalayas. The Burma current passes all over Burma and is the cause of heavy shower in that province.

The northeast is the south west current in retreat.

The other current is known as the north-east monsoon. It is the south-west monsoon in retreat and flows from the land towards sea. The course of the wind is attributed to the fact that during the winter season the land becomes much cooler than the seas and as such the cold and moist air above earth rushes towards and replaces the hot air on the sea. This current is the cause of wintry rains in Madras and the Punjab.

Sc. 6. Influence of the Climate

Its effects on human character; its connection with birth-rate.

The climatic condition of a country plays a very important part in moulding human character. The people who live in warmer regions generally become less energetic and more shortlived than those who live in cooler regions. A warmer climate again is associated with high birth-rate which often brings misery in some form or other. The people become less enterprising and the spirit of invention is almost absent.

In India all the above evil effects of a warm climate have manifested themselves in all vividness and shaped the destinies of its population.

The production of a country depends greatly upon climatic conditions. It has its effect both on the productivity of human beings as well as on that of the soil. People who live in warm climate can not work hard for a long period of time and this fact accounts for their industrial backwardness. Its effect on production.

Again the products of the soil are largely influenced by the climate. In India the climate is not everywhere the same. The climate of the Punjab differs considerably from that of Bengal and Lower Burma. The former is suitable for the growth of wheat and the latter for rice. The production of other crops has likewise been governed by the climatic influences. Varieties of Indian climate and their effects on production.

Sc. 7. The characterstic feature of Indian soils.

India's fortune depends greatly upon agriculture and the prosperty of this Industry is intimately connected with the character of the soil. Indian soil when compared with that of any other country will be found to be comparatively dry, consequently, unless there is an adequate supply of water there must be failure of crops.

Indian soil does not contain the same properties every where; soils may be mainly classified under three different heads viz. (i) the alluvial tracts (ii) the trap soils of the Deccan and (iii) crystalline soils. Different kinds of Indian soils. The alluvial soil is to be found in Bengal, Assam, Burma, the united Provinces, the Punjab, Gujrat, Rajputana Sind, in some parts of Madras and in the eastern and western coast strips of the Peninsula. (i) Alluvial soils This kind of soil is rich in chemical properties and we find in it the following ingredients—phosphoric acid, potash, lime and magnesia. This quality of soil is suitable for the growth of kharif and rabi crops.

(ii) Trap soils

The trap soils are to be found in the Deccan, Hyderabad Bombay and the western portion of the Central Provinces. They are also present in the river valley of Madras and Bombay. When found in the lowlands they are fertile and help the production of cotton, wheat, pulses and millet. In the Deccan this type of soil is called the black-cotton soil because its colour is dark and it is suited to the growth of cotton.

(iii) Crystalline soils.

The crystalline soils cover almost the whole of Peninsular India where the other kinds of soil are absent. These soils do not always contain the same chemical properties and are deficient in nitrates and phosphoric acids. When they occur in the lowlands they are fertile and yield various kinds of crops, the most important being rice.

Questions and Answers

1. Describe the physical feature of India—what part does it play on the economic development of the country.

Ans. *See*—Sec. 1.

2. India has been described by an eminent writer as a continent. How will you support the statement?

Ans. *See*—Sec. 3.

3. Give an account of the economic geography of the Indo-Gangetic plains—(C. U. 1912).

Ans. *See*—Sec. 4. (2).

4. Describe briefly the economic importance of the Himalayas.

Ans. *See*—Sec. 4.

5. Probably there is no other single groups of weather phenomena which is so far reaching in its effect as the "Indian monsoons." Discuss the statement with reference to the economic effects of the failure of monsoons in India. (C. U. 1927).

Ans. *See*—Sec. 5.

Hints—The failure of monsoons means a failure of rain-fall—The want of rain-water brings about a failure of crops and precipitates the occurrence of famine.—The Government loses much of its land-reverue—while it has to spend a large amount of money for ameliorating the distress of the people. The export-trade of the country is reduced and there is an unfavourable balance of trade.

6. Describe the effects of monsoons on Indian agriculture. (C.U.1921.)

Ans. *See* Above.

7. What influence does Indian climate exert on the economic progress of the country.

Ans. *See*—Sec. 6.

8. What do you mean by the monsoons in India ? Describe the various economic consequences which follow from their failure. C. U. 1931.

Ans. *See* Sec. 5 and Hints under Q. 5.

9. Give an account of the different kinds of soil to be found in India.

Ans. *See* Sec. 7.

CHAPTER III

PRODUCTS OF INDIA

Sc. 1. Principal Crops.

India being mainly an agricultural country, a treatise on Indian Economics should, in its chapters on production, give a brief account of the important kinds of agricultural products raised on India's soil.

(I) *Rice*

Where grown.

It is one of the chief staple crops in India. It is consumed by a larger percentage of the Indian population and a failure of this crop brings scarcity or famine. It is chiefly cultivated in Bengal, Assam, Burma, Madras and the coast district of Bombay. The crops cannot thrive except in areas where rainfall is certain or constant or where suitable arrangement has been made for making up the deficiency of rain water.

It thrives most in areas of certain rainfall.

The contribution of different provinces.

Bengal comes first in the production of this crop. Then come Assam and Burma whose contribution to production, so far as the exportation of the crop is concerned, is considerable. More than one-third of the total cultivated area is under rice. In Bengal about 75 per cent. of the total cultivated area produces rice. Generally there are two harvests in Bengal. The *aush* crop which is reaped earlier is consumed by the poorer section of the people, still the importance of this crop during the time of famine can never be denied. Rice is intensively cultivated in Bengal while the cultivation in Burma is extensive.

India is the largest exporter of rice. It exports about 9 p. c. of the crops produced and the total value of this exported rice amounts to nearly 27 crores. The demand for rice comes chiefly from the United Kingdom, France, Japan and Italy. India's export of rice is the largest.

We have stated above that rice is the principal food crop of India; but this is not the only utility that we derive from rice. It has other uses as well. The foreign countries that import this crop from India uses it mainly for the preparation of starch as well as for brewing wine. Again the husks are used as fuel. Rice and its various uses.

(2) *Wheat*

Next in importance among the food crops is wheat. It grows best in those provinces where the climate is cold and the rainfall is moderate e. g. the Punjab, the United Provinces, Berar, Bombay and Orissa. The areas under this crop are going on increasing year by year. At present the area is near about 50 million acres yeilding an output of nearly 10 million tons. This expansion of wheat cultivation can be attributed to several causes of which the following three are important (1) facilities of communications under the British rule (2) extension of irrigation (3) favourable seasons. Wheat has a wider market than rice, and hence its price in India is governed by that prevailing in other countries. India exports wheat to other countries when the Indian price is lower than the price prevailing in foreign countries after allowance has been made for the inferior quality of Indian wheat and the cost of transportation involved. The principal countries to which India exports wheat are United Kingdom, France, Italy and Egypt. It grows most in cold climate. The area of wheat cultivation. Causes of its expansion. The nature of wheat market.

One great difficulty in connection with the production of wheat is the inferior quality of the crop and the consequent lower price which it India produces wheat of inferior quality.

fetches. Attempts are now being made by the Agricultural Department for improving the quality of this crop.

(3) *Sugarcane*

Importance of sugarcane.

This plant is important inasmuch as sugar which is necessary for everyday consumption, is mainly made out of it. There are other ways of producing sugar, as for example, from the bastard date and the Palmyra palms.

It grows most in Bengal and in the Punjab.

The Sugarcane is chiefly grown in the United Provinces, in Bengal and in the Punjab.

The cultivation of sugarcane plants covers an area of about 3 million acres. The contribution of the United Provinces is the highest. The yield per acre cannot however be favourably compared with that of Cuba and Japan.

The history of the sugar trade.

The sugar trade of India has a long history behind it. Orignally refined sugar was exported to England from Bengal alone; but in course of time a restriction was imposed on this trade with a view to encourage the sugar planters of the West Indies. Later on, the establishment of sugar refineries on European models considerably improved the condition of India's sugar trade but in the long run India failed to compete freely with cheap bounty-fed sugar of continental Europe.

Government's effort for the revival of the sugar trade of India.

Though the Government tried its best to revive India's sugar trade by the imposition of countervailing duties in 1903 yet it became impossible for India to stand the competition of Mauritius and Java. India now imports large quantities of refined sugar while its exports are chiefly in the form of molasses or *gur*.

The chief causes for the break-down of the sugar industry may be summarized thus:—(1) India's cultivation of this plant is scattered over small holdings isolated from one another. (2)

The Indian peasants do not possess that amount of capital which is necessary for large-scale production. (3) The cultivators are inefficient and have no knowledge of the scientific method of production. (4) The plants of India are of inferior quality and the yield per acre is almost one-fourth of that of Java.

(4) *Jute.*

Its production is a mon poly o Ben al.

The production of this commercial crop was almost a monopoly of Bengal but in recent times considerable quantities of this crop are produced in Assam and in some other provinces. This crop grows best in low lands.

The area under this crop is going on increasing.

The area under this crop increased abnormally in 1914 when more than 3 million acres of land yeilded an output of 10½ million bales of 400 lbs. each but later on, there was a considerable reduction in the area of land under this crop.

Countries that import jute from India.

This crop is important so far as the export trade of India is concerned. A large quantity of jute is exported every year to United Kingdom, Germany, the United States and France. Not only raw jute is exported but also manufactured jute finds a wide market in foreign countries. With the increase of the British trade. in grains, specially of wheat, has grown up the demand for gunny bags and this has given an impetus to the jute cultivation. The foreign demand for Indian jute has increased so much that almost 80 per cent. of the product is exported out of the country. Recently, the foreign demand for Indian jute has diminished with the result that the price of jute has fallen down. The cultivators of jute have not been in a position to sell their jute at a price which covers their cost of production. Such is the fate of producers who turn out goods for a foreign market which is often unknown. Again the fall

The recent depression of jute trade.

in the import trade of India has led to fall in its export trade because the goods ultimately pay for goods.

The production of this non-food crop has been responsible for certain evils

Though the commercial importance of jute cannot be gainsaid yet the production of this crop has been responsible for various evils.—(1) It has displaced the cultivation of rice and led to a rise in its price. (2) Experience tells us that the cultivation of jute exhausts the fertility of the soil more rapidly than the cultivation of rice can do—(3) The extension of the cultivation of this crop has been reponsible for the spread of malaria. (4) The foreign market for this article is uncertain and consequently the producers often suffer greatly on account of over-production. These are the reasons why the patriots of India have often advocated the restriction of jute cultivation in Bengal.

(5). *Cotton*

The black soil of the Deccan is favourable to the growth of this crop.

Cotton is the most important of all textile crops in India. It is chiefly cultivated in Bombay, Berar, Central provinces, Hyderabad, Burma and Sind. The black soil of the Deccan is favourable to the growth of this crop.

India stands third in the production of this crop. Its productive capacity, so far as this crop is concerned, varies from 75 to 100 lb. per acre while Egypt produces as much as 360 lb. and the U. S. A. as much as 200 lb. per acre.

India produces varieties of cotton; some of these take at least eight months to ripen while others ripen in five months.

Inferior quality of Indian cotton and its causes.

Indian cotton is inferior in quality. This inferiority has been due to the following causes:—First, inferior cotton is much more extensively cultivated than the superior one because the former can and the latter cannot withstand drought.

Secondly, there is no great demand for long-staple cotton in Indian market which is accustomed to use short-staple cotton. Thirdly, the imperfect method of selecting seeds has been in a measure responsible for the inferior quality of the crop.

Export of Indian cotton has decreased in recent times.

India exports as much as 30% of the total output of this crop; but an increase in the demand for indigenous cotton has, in recent times, the effect of decreasing the amount of the export. At present the average annual consumption of indigenous cotton by Indian mills is near about 750,000 bales of 400 lb. each.

Central cotton committee and its functions.

The Government of India which has rendered some services in connection with the improvement of Indian agriculture appreciates greatly the importance of cotton industry in India. As early as 1919 the Government appointed a committee known as the Indian Cotton Committee which submitted its report recommending the formation of Central Cotton Committee which would concentrate its energy to check with the help of the legislature the various abuses of adulteration and suggest schemes for the improvement. At the instance of this committee the research work is being carried by scholars and improved varieties of cotton have been introduced in different parts of India.

(6) *Silk*

Its reference in ancient dramas as Chinangsuka tends to show that it was first imported into India from China.

The manufacture of silk was at first unknown to India. In ancient dramas and religious books silk has been described as *chinangsuka*. This shows that it was at first, imported to India from China. It is said that in Mysore, which produces nearly two-thirds of the total output of Indian silk, the manufacture of silk was introduced by Tipu Sultan who managed to import the seeds from China.

The districts which are important for the growth of raw silk.

Besides Mysore there are certain other districts which are important for the production of silk, e. g. (1) Murshidabad, Malda, Rajshahi and Birbhum districts in Bengal, (2) Kashmere, (3) Dehra Dun and Ptatabgar in the United Provinces (4) Chota-Nagpur, Orissa.

Efforts of the East India Company.

The silk industry is a very important industry. The East India Company when they established their trade marts in Bengal tried their best to revive this industry. They established several factories and thereby gave the cultivators opportunity to come there with their cocoons. They purchased the services of Italian reelers who would give the factory hands instructions regarding the Italian system of reeling. Thus they helped the revival of silk industry and Bengal silk succeeded in capturing in European market; but unfortunately for India it is now in a decadent condition and cannot stand the competition of Japan and other foreign countries unless it is helped by the state by the grant of bounties or the imposition of a protective duty on foreign silk.

Sc. 2 Drugs and Beverages.

(1) *Opium.*

Importance of the production of opium.

The productions of opium is of great importance in as much as the Government derives a large revenue from it. The poppy out of which opium is manufactured grows both in British India and in some native states. The former kind of opium is known as Bengal opium and the latter kind as Malwa opium.

The principal tracts where opium is cultivated.

The principal tracts where opium is cultivated are (1) Bihar and some districts in the United provinces. (2) Indore, Gwalior, Bhopal and some other native states.

The production of

The manufacture of the Bengal opium is a monopoly of the state. It can be produced only

under license from some authorised officers of the state. A factory has been established at Gazipur where crude opium is turned into opium that is sold in the market. The export of opium and with it the total output of it have been reduced considerably on account of the agreement made by the Government of India with the Chinese Government for the suppression of opium traffic with China; but in spite of this reduction in output the opium revenue of the Government is going on increasing for ever.

Bengal opium is a monopoly of the Government.

The effect of India Government agreement with China on the export of opium.

(2) *Tea.*

It is admitted by all that the tea plant was indigenous in Assam but the experiment in this industry first began with seeds imported from China. It is only when the Government proved that the Assam plant could freely compete with the Chinese product that the cultivation of the former was encouraged and the Indian tea industry was established.

The cultivation.

The important tea producing areas are Darjeeling and Jalpaiguri in Bengal, the Nilgiris in Madras, Dehra Dun in the United Provinces, Kangra Valley in the Punjab, Assam, the Choto Nagpur district, Travancore and Cochin. Of these Bengal and Assam contribute as much as 80% of the total output. The net out-turn in 1925 was near about 347, 862000 lbs. This, industry gives employment to more than 630,000 persons.

Important tea producing areas.

Formerly this industry was almost exclusively managed and financed by Agency firms established in Calcutta but in recent times Indian capitalists and enterprisers are taking increasing interest in the development of this industry.

Management.

The Indians are increasing their consumption of tea but their demand for tea does not cover even .10 per cent of the total output; the rest is

exported to foreign country where the demand is gradually increasing.

(3) *Indigo*

The early history of the indigo trade.

This is one of the ancient industries of India and its history is as old as the beginning of the Christian era. The East India Company did a great deal in encouraging this industry. At first the above Company had a monopoly so far as the indigo trade was concerned but this monopolistic power was taken away in 1789; but still this trade was mainly financed by the Europeans who had certain advantages over the native traders. This industry flourished till the introduction of German synthetic indigo captured the world market on account of its cheapness. The production of Indian indigo was in 1914-15 reduced to 25,200 cwt as compared with 168,673 cwt in 1896-97. The total output in 1924-25 was near about 17,800 cwt and area under cultivation was 107234 acres. Efforts are now being made to improve the method of production. Mr. and Mrs. Howard have suggested several methods whereby the German competition can be withstood.

Why the industry decayed? The competition of German Synthetic indigo.

(4) *Tobacco*

The discovery of his important plant is attributed to Columbus.

The general belief is that this very important plant was unknown to India till Columbus discovered it along with the country in which it was grown in abundance. It is the Portuguese traders who introduced this thing into India. India has not taken time to appreciate the utility of this plant and has managed to extend its cultivation within a short time. Tobacco is now mainly cultivated in the Eastern and the Northern Bengal, Behar, Southern India and lower Burma. Though India produces a large quantity of raw tobacco she is still in her infancy so far as the manufacture of tobacco is con-

The area in which tobacco is produced in large quantity.

cerned. Excepting Madras where the manufacture of this important article has attained considerable importance no other province has taken the initiative notwithstanding the fact there is a great field for it. The result has been a great increase in the importation of manufactured tobacco. The Swadeshi movement in India has recently changed the attitude of the Indians and people who used to smoke cigarettes imported from foreign country are found to be satisfied with the indigenous cigarette (biri). This is the reason why the importation of this article has diminished greatly.

Manufacture of tobacco.

(5) *Cinchona*

The peasantry of India has little or no concern in the cultivation of Cinchona. This industry was introduced into India under the auspices of the British Government and is the monopoly of the Government. It is an important industry because it helps the production of quinine which is an efficacious medicine in malaria and other diseases; India, however cannot meet her demands for quinine out of the total amount of quinine produced here. The import of this article is gradually increasing while there is a decline in the export of Cinchona bark. Cinchona is chiefly grown in the Nilgiri hills and in Darjeeling.

Production is a monopoly of the state.

Sc. 3. Principal Minerals.

The importance of minerals in the economic development of a country can never be exaggerated, but all minerals are not equally important. There are some minerals such as coal, iron, petroleum which contribute most to the economic prosperity. India is not poor so far as the deposits of these three kinds of minerals are concerned.

The important minerals and their connection with economic prosperity.

The distance between the coal and iron centres is a great hindrance to India's industrial success.

Though rich in mineral wealth India has still to bear the burden of heavy import of foreign mineral. This evil result has been mainly due to the want of metallurgical industries in India and the chief hindrance to the developmeut of such industries in India has been found out to be want of coal and iron ores existing in the vicinity of each other. Attempts, however, are being made to develop the metallurgical industries with a view to make India self-sufficient so as far as her requirements in this direction are concerned.

(i) *Coal.*

The important coal districts and their contributions.

Let us now have a brief survey of the principal minerals of India. Coal stands first both in order of importance and utility. Most important of all coal districts are Jheria in Behar and Raneegunj in Bengal. They together contribute near about 85% of the total output in India. The other important coal-fields are those of Giridhi, Daltongunj in Behar, those at Singarini in Hydrabad, those at Mohapani and Warora in the Central Provinces and those at Makum in Assam and in the Jhelum district in the Punjab.

Output.

The amount of local consumption of coal.

India produced as much as 20 millon tons of coal in 1924 and of this output not less than 95% was consumed locally in India. The Indian Railways use almost exclusively Indian coals. But the whole of India's demands for coal is not satisfied by the supply that comes from her mines and large quantity of foreign coals is being imported every year to meet the demand that remains unsatisfied. This import of foreign coal has been simulated partly by its superiority and partly by its cheapness and regular supply.

The importation of foreign coal and its causes.

Coal is imported into India from Great Britain South Africa, East Africa, Japan and Australia. The importation of this article has reached a considerable figure with the result the demand for indigenous coal has fallen greatly.

Import o coal.

In this age of industrialism coal plays an important part in the economic development of a country. But coal has not played its part equally well in every country. The English coal has done greater service to England than Indian coal has done to India. This is evident from the following facts that show clearly the advantage that English coal has over Indian coal:—

Comparative advantages of English coal over Indian coal.

(1) English coal is superior in quality and strength to Indian coal. (2) The coal mines are situated near the industrial centre and in consequence, the industries do not suffer from heavy freight charges. (3) Again the freight charge per ton is in England lower than that in India, (4) The scientific method that is employed in extracting coal has been another cause of its cheapness. (5) The labourers that are employed in coal mines are comparatively cheaper inasmuch as they are more efficient and hardworking.

The present position—The coal industry of India is at present suffering from great depression. Indian coal is not in a position to compete with foreign coal. The cost of production has increased very much because the mine-owners have been compelled to raise the wages of the labourers, however inefficient they may be. Again the Mines Act and the Boiler Act have imposed upon them the duties of making better provision in the matter of sanitation, housing and water-supply. The condition of this industry has been seriously affected by the adoption of dumping policy by South Africa. The rise in the freight and shortage of waggons have also their worst effect upon this industry.

There are two other difficulties that stand in the way of India's success in this industry. First, the Indian coal is inferior to foreign coal in strength. Secondly, when compared with the mines of other countries Indian mines yield the lowest output of coal per head per annum.

The depression of the coal industry and its effect upon the labour and capital of this country became the subject matter of discussion in the Legislative Assembly in 1924 and a resolution was passed recommending the imposition of a protective duty on foreign coal. A committee known as Noyce Committee was appointed to enquire into the problem and to suggest measures which would augment the export of coal from Calcutta to other Indian and foreign ports. The committee was also advised to make recommendation regarding the pooling and grading of Indian coal.

The committee made enquiries and submitted its report recommending (i) the extension of machine working in mines (ii) the introduction of a system of loading coal raised direct into the waggons, (iii) granting of a rebate of 37½ per cent. on export of Indian coal, (iv) the creation of a Grading Board which would certify as to the quality of coal.

In accordance with the recommendation of the committee the Government made necessary legislation for the formation of a Coal Grading Board and it was constituted in 1926. The Railways and the Port Commissioners accepted the recommendation of 37½ per cent. of rebate and of lower river ones (as 4 per ton). The question of a protective duty on foreign coal was referred to the Tarrif Board.

(ii) Gold.

The amount of India's production of

Gold is another important metal that India produces. Though it is very difficult to give an

exact account of India's contribution to the world's production still it is certain that its production is not less than 4,00,000 ounces. This output of gold chiefly comes from the Kolar fields in Mysore. Gold is also produced in the Anantpur district of Madras and in Burma where it is obtained by dredging on the Irrawaddy.

gold cannot be exactly estimated.

The gold districts of India.

This metal is generally used in India for ornamental purposes. It can be profitably utilised in coinage as it has almost all the characteristics of good money. But unfortunately for India the free coinage of this metal is not allowed by the Government.

Gold and its uses

(*iii*) *Silver.*

Silver is another important metal that India requires in large quantity. The demand for this metal is greater than that for gold because it is used both for the purposes of making ornaments and coining rupees. But the quantity of silver produced in India is too small to meet this demand. It is only available in the northern Shan States in Upper Burma and the total output does not exceed 500,0006 ounces.

The quantity produced is too small to meet the increased demand for this metal.

(*iv*) *Iron.*

Nature has favoured India with large deposits of valuable iron ores but the absence of coal and limestone near the iron districts stands in the way of their being worked successfully. This difficulty of working the iron ores has been greatly felt in Madras where deposits of best iron ores have been found. On the other hand the existence of coal-fields in the Ranigunj district has facilitated the working of the iron ores located there with the result that the output of iron is gradually increasing in that district. Several newly established Iron Companies such as The Tata Iron and Steel Works, The Bengal Iron Company and others are doing a great deal

The large deposits of valuable iron is to be found in India.

The difficulty of working the existing iron ores.

Several iron companies are trying their best to develop this industry.

in developing this industry of India; and it is no exaggeration to say that India will in the near future be in a position to meet her own demand for iron if the Government comes to her help.

(v) *Petroleum*

India's contribution to the world's supply of petroleum is insignificant. It does not, roughly speaking, cover even 1 per cent. of the total production in the world. Petrolum is to be found in Assam, Burma and in the Irrawady valley; some oil fields also exist in the Punjab but their share in the supply of the article is very small. There are two important oil companies viz. the Burma Oil Company and the Assam Oil Company. The Burma Oil Company alone contributes as much as 260 million gallons out of the total Indian supply of about 300 million gallons.

(vi) *Kerosene oil.*

Kerosene oil plays an important part in the daily life of the Indians. In the villages people use this oil in their lamp and in towns the poor people who cannot afford to bear the expenses of electric light have no other alternative but to use it. This oil is supplied by Burma but its contribution cannot meet the total demand in India. This is the reason why India has to import large quantity of this oil from the United States and Russia. The export of this article to foreign countries is very insignificant.

(vii) *Manganese.*

India has a large deposit of Manqanese ore but the absence of smelting plants has stood in the way of her success in this industry and led to an export of manqanese ore. Large deposits of manqanese ore are to be found in the Central Provinces in Bombay, Mysore and in Behar and

India can profitably use it in the manufacture of steel and in glass-making but unfortunately for India the steel industry is still in its infancy and large quantity of steel is imported into the country. The value of the annual output is about 3 crores of rupees.

(*ix*) *Salt.*

Like kerosene, salt is another article which the Indians demand every day. It is useful to the rich as well as to the poor. The Government of India controls the supply of salt; salt can be produced either under a license from the Government or by Government Agency. Of the total salt consumed here in India not more than one-third is imported from foreign country. The supply of indigenous salt comes partly from the factories located in Bombay, Madras and at the mouth of the Indus, and partly from the Kolar Mines and from Rajputana The price of salt varies with the amount of duty that is imposed upon it by the Government. When the Government raises this duty, the price of salt increases very much with the result that incidence of such tax falls heavily upon the poorer section of the community. This is the reason why the control of salt production has been seriously criticised by the political leaders and Mahatma Gandhi wanted in 1930 to break this law first. Salt is imported from Germany, United kingdom, East Africa, Aden and Spain. Although India produces a large quantity of salt it had to import in 1928 about 600000 tons of salt from foreign countries.

Various sources of salt.

(*x*) *Mica.*

Mica is another important mineral which India possesses. This mineral is chiefly used in steel manufacture and in glass making. In

certain parts of India it is used for ornamental purposes. Sometimes it is a good substitute for glass and various parts of machines are made of it. This article is exported out of India in large quantity. In 1921 this industry like others suffered from an acute depression but since 1923 the condition of this industry has improved owing to the large demand for Mica in foreign countries. The Indian mica is supplied by the mines of Hazaribagh, Monghyr and Gaya.

Sc. 4. Forests.

Economic utility of forests: No treatise on Indian Economics can avoid a discussion of India's forestry because it is intimately connected with the economic development of our country. Let us have a summary of all the utilities that India derive from her forests :—(1) They help the progress of agriculture by storing rain-water in the soil and by keeping the atmosphere sufficiently cool so as to cause the fall of rain when rain-bearing clouds pass over the forests. (2) They supply the Indians with timber for building their cottages, fuels for cooking their food and grass and leaves to feed their cattle with. (3) They have been the source of considerable revenue to the state inasmuch as most of the important forests are the property of the state according to the Indian Forest Act of 1878. (4) They have contributed to the development of certain industries (technically known as forest industries) such as Resin & Lac industries as well as paper-making and match-making industries. (5) Forests add to the fertility of the soil by allowing the leaves in which is stored up food materials to fall down and to be mixed up with soil. (6) They obstruct the high winds and thus save many areas from the evils that winds often bring with them.

The economic benefits derived from Indian Forests.

The Government derives considerable revenues.

Certain forest industries.

I.—*Management of Forests.*

The Government of India has created a separate department known as Forests Department for the administ.ation of those forests which belong to the Government. This department has classified the state forests into three groups (1) Reserved, (2) Protected, (3) Public. The difference between the first two classes lies in the fact that the control is more stringent in the case of reserved forests than in the case of protected forests. The third class of forests is under less restriction and is meant for the use of the general public. The attention of the Government was drawn as early as 1827 to the forest resources of India and it appreciated the importance of forest in the economic development of the country, but the attempt was not made till the Viceroyalty of Lord Dalhousie for the preservation of Indian forest on a sound basis. Gradually, scientific management of forest was introduced and Forest Research Institute was established of Dehra Dun for promoting the research work.

Classification of state forests into three groups. 1 The Reserved. 2 The Protected 3 The Public.

II—*Backwardness of Forest Industry.*

The prospects of several Indian industries are closely associated with the develoment of forests. The Resin industry which depends for its success upon the development of forests is an important industry inasmuch as two very useful articles, turpentine and resin are made out of it. There are other important forest industries such as Lac industry of Central India, paper-making and match-making industries which can attain considerable success provided steps are taken to develop the Indian forests. The backwardness of the forest industry has been due to the following causes:—

Several forest industries entirely depends on the development of Indian Forests.

(1) The research-work has not been carried

The causes of the backwardness of the Forest ndustry.

on to a large extent so as to discover the latent properties of many kinds of timber. There are many kinds of trees whose usefulness is still unknown. There may be in them properties which may serve a very useful commercial purpose.

(2) Again, whatever knowledge the **Research Institute** may have gathered about the properties of certain kinds of timber it has not taken the trouble of making those properties known to the organisers of commercial undertaking. The result is that the knowledge serves no useful purpose.

(3) The efforts of the **Forest Department** have been concentrated in the protection and development of forest and not in the matter of turning it to useful purposes. Thus the efforts can scarcely be described as productive efforts.

(4) The number of persons employed in the Forest Department is not sufficient to administer Department satisfactorily.

III. Suggested remedies.

The administration of Indian forest may be improved in the following ways:—(i) The control of forest should be vested in a single officer: such concertration of power will surely bring a keen sense of responsibility in the management of forest. (ii) There should be an increase in the number of staff employed to manage the forest. (iii) Efforts should be made to classify forest areas into a major division and a minor division, the former including the commercial forest and the latter containing the fuels and other kinds of less important trees. (iv) Art of afforestation should adopt a systematic principle. Trees having the same or similar properties should be grown in sufficient quantity in one definite area so that they may be utilised commercially. (v)

The Forest Department should have some connection with the Department of Agriculture and forest officers should have knowledge in agriculture.

Sc. 5. Flora and Fauna.

By Flora we mean the vegetable kingdom. No treatise of Economic Science can omit the discussion of the vegitable kingdom as the economic develoment of a country is intimately connected with the different kinds of plants which supply the people with food and the industries with raw materials. India has been favoured by nature with plants of various kinds. The difference in climatic and geological conditions has been in a way responsible for the production of different kinds of plants in the different parts of India. Herein you will find the products of the tropical, subtropical and temperate zones. Within the tropical products we can include rice, jute, sugarcane, cinchona, coffee etc. The principal subtropical products are cotton, tea, opium and tobacco, and the products of the temperate zones include wheat, barley, potato etc.

Flora means vegetable kingdom. The vegetable kingdom of India contains crops of various kinds grown in various parts of India.

The Fauna of a country represents the animal kingdom. Like the vegetable kingdom this animal kingdom gives us varieties of animals both wild and domestic. The animals of the latter class are, from the economic point of view, more useful than those of the former class. It will serve our purpose better, therefore, to have a discussion about the principal kinds of domestic animals which include bullocks, buffaloes, cows, horses, camels, goats and sheep. Of these, bullocks and buffaloes render a great assistance in the cultivation of the soil and their importance in an agricultural country like India can never be exaggerated; but in comparison with other countries of the world the number of cattle per acre is the lowest in India. In India

The Fauna means the animal kingdom containing animals of various descriptions.

The number of cattle in India is the lowest in India.

The causes of decline in the supply of agricultural live-stock.

1. Want of efficient breeders

2. Slaughter of prime cows.

3. Exportaiton of best acttle.

4. Frequent occurrence of famine.

5. Inefficiency of the existing stock.

the number is 66 per acre while U. S. A. has 80 per acre. Again the number is gradually decreasing with the result that the agriculturists are suffering a great deal for want of adequate supply of agricultural live-stock. Several causes have been responsible for this insufficient supply of cattle—(1) want of efficient breeders. In former times many bulls were dedicated to the gods and these used to serve as good breeders but with the spread of civilisation the religious spirit that prompted men to decicate bulls to gods is fast disappearing. (2) Slaughter of prime cows has in a great measure checked the increase of cattle. (3) Again, best cattle that can serve as efficient breeders are exported to other countries to satisfy the demand for meat in those places. (4) The frequent occurrence of famines has the effect of decreasing the stock of cattle in India. (5) Again whatever little stock of cattle India has, they are generally less efficient in comparison with those of other countries and this inefficiency is due partly to want of proper food and nourishment and partly to want of scientific knowledge with regard to proper rearing and breeding of cattle. Several remidies have been suggested. They may be briefly described thus.

1. The establishment of Civil Veterinary Department.

(1) The establishment of Civil Veterinary Department can solve the problem of breeding to some extent. After prolonged research it has succeeded in discovering that the best method of breeding would be to breed inferior cattle by the best of their own class. Many experimental firms have been opened under the patronage of this department with the result that the demand for good breeders is being met to certain extent; but still the number of such farms are too insufficient to meet the whole demand.

2. The acquisition of certain

(2) Next with regard to the removal of the want of grazing fields the only remedy that we

can suggest is the acquisition of certain acres of land wherein the villagers will be allowed to graze their cattle.

areas to be used as grazing fields.

(3) Thirdly, the difficulty in connection with the slaughter of prime cows and calves can be removed at least to certain extent provided the Government takes the trouble of imposing a heavy license tax on the slaughter of such animals.

3 Heavy license tax on the slaughter of cattle.

(4) Fourthly, the evils that result from want of scientific knowledge can be removed if the Government publishes pamphlets containing informations about the proper method of rearing cattle and of eradicating the diseases that often attack them and manage to have those pamphlets distributed among the villagers.

4. Spread of knowledge regarding the method of rearing cattle and eradicating the diseases.

Sc. (5a) Cows.

The cows are of great utility to the community. They supply the people with milk which is the only food of the babies and the best nutrition on which the health and strength of the vegetarian Indians depend.

They supply the Mohammedans and the Europeans with the cheapest kind of meat. Their hides serve very useful purposes in these days of civilisation when people cannot do without a pair of shoes. But we should care to note in this connection that the Indians have not in them the enterprise to reap all the profits that can possibly be derived from such hide. Hides are exported to foreign countries and sent back to India after they have been properly tanned by foreign manufacturers. The cowdung is used as manures and when dried can very well be used as fuels. The bones of cows are profitably used in the preparation of certain articles.

Usefulness of the cows.

Sc. 6. Pisciculture.

In India fish is an important food inasmuch

as people of the various parts are accustomed to take fish as their staple food. The supply of fish is not abundant and the price of fish is sometimes very high. This insufficiency in the supply of fish is due not to want of sources but to the inefficient manner in which this industry is carried on. This industry is practically in the hands of a class of people whose illiteracy and conservatism stand on the way of its development. Attempt has been made by the Provincial Governments to improve the condition of this industry by establishing Fisheries Departments in Bengal, Madras and Behar and Orissa. The Madras Government has exerted itself much for the improvement of this industry. There the Government supplies the Fish Curing Industry with salt at cost prices. Fish may be used as a manure but it has scarcely been used as such because of its high price.

Utility of fish inadequacy of supply.

Questions and Answers.

1. Locate the following crops and indicate the climate and other condition which favour their growth—in the particular localities—wheat, cotton, jute and rice—(C. U. 1911.)

Ans.—*See*—Secs. on those Topics.

2. Locate the following mining industries—
Coal, iron, gold—(C. U. 1911).

Ans.—*See*—Sec.—On Principal minerals.

3. Name the principal agricultural and mineral products of India, giving approximately the value of exports of five of former and two of the latter. What are the countries of their importation? What is the necessity of importing coal into India when she produces it in sufficient quantities to satisfy all home requirements—(C. U. 1913).

Ans.—*See*—Sec.—On rice, wheat, jute, cotton, tea, also Sec. on coal.

4. Locate the chief mining industries of India. Examine the effects of the development of mining industries by (a) the European and (b) the Indian capital and enterprise—(C. U. 1921).

Ans.—*See*—Sec. on mining industries such as coal, iron, gold etc.

Hints—The economic effect—

(a) The exploitation of the resources of India—the profits go to the

pocket of the foreigners—The Indians only get their wages—the loss is tremendous in gold mining as it is the most precious of all metals and the source is exhaustible—The Indians get no training as they are scarcely employed to hold any post of responsibility.

(b) Profits will remain in Indian hands. The material conditions will be improved by the proper utilisation of the mining resources—The capital will find investment—The Indians will learn to take risks boldly. People will get training in industries. The Indians will hold important posts.

5. Give an idea of the principal minerals of India with reference to their location and distribution.

Ans.—*See*—Sec. on mineral products.

6. Mention the chief food crops and the chief textile crops of India. To what countries are they principally exported.

Ans.—*See*—Secs. on rice, wheat, sugar, jute and cotton.

7. State the regional distribution of the more important of the commercial crops of India. Indicate briefly the importance of such crops in the foreign trade of India C. U. 1930.

Ans.—*See* Q. 3.

8. Give an account of the forest policy of the Government of India. Discuss in this connection the importance of forests in the economic life of India. C. U. 1929.

—*See* Sec. 4.

CHAPTER IV

ECONOMIC CONDITION

The productive capacity must be determined with reference to both agriculture and manufacture.

The economic development of a country depends greatly upon its productive capacity. This productive capacity generally manifests itself in two forms—in agriculture and in manufacture. Thus when we will like to determine the productive capacity of a country we will do well to study both the agricultural and manufacturing capacity of that country. There are countries which owe their prosperity mainly to their improved efficiency in manufacture while there are others that mainly depend upon agriculture for subsistence. India with whose economic development we are at present concerned falls to the latter category.

Sc. 1. Agriculture—An important Industry

India is mainly an agricultural country but has immense prospect for industrial success.

India is mainly an agricultural country. Almost 90% of the people are in intimate touch with this industry. The illiteracy of the population and the proverty of the Indians stand in the way of its industrial success. We are not,, however, justified in saying that India has no prospect for industrial success before it although there are European writers who are dogmatic enough to hold such opinion. On the other hand India with its large supply of raw materials will be in a position to flourish in manufacturing industries if the Government take steps to eradicate those evils that hamper its industrial progress.

India can flourish both in agriculture and manufacture

Though India should try to develop its manufacturing industries it should not neglect the agricultural industries. Both these industries should be equally developed; of course, there are countries which depend upon other countries

for the supply of raw materials which the manufacturing industries require, but they do so because there is no prospect for the efficient supply of raw materials from their own soil. India, we find, is in comparison with other countries pre-eminently in a better position because it has an equal chance of success in both the spheres production.

Agriculture still undeveloped.

Again, so far as the agricultural condition of the country is concerned we cannot say that India has reached the final stage of progress. There is much to be done as yet. Countries like U. S. A. yield larger output per acre than India. The method of cultivation is primitive. The Indian agriculturists are not acquainted with the up-to-date methods which require the utilisation of efficient machineries. This lack of development has been due partly to chronic ignorance and mainly to the indebtedness of the agricultural population.

Primitive method of production is still continuing.

How the people will be benefited by the development of Indian agriculture.

The development of Indian agriculture will have its influence upon the prosperity of the Indians. It will cheapen the prices of articles and thus confer immense benefit upon the people who are mainly poor. It will increase the foreign trade and make the other nations much more dependent upon India for the supply of foodstuffs and raw materials. The manufacturing industries will be in a position to produce articles with a lower cost of production to the prejudice of the importation of cheap foreign goods.

Govt. gains will be measured by an increase in revenue, which will be the outcome of such development.

The agricultural prosperity of India will bring a great advantage to the Government as well. The Railways will earn higher revenues on account of increase in commerce. The revenues derived from land, stamps and customs will also go on increasing. The favourable balance of trade that is likely to be associated with such a prosperity will facilitate the payment of what is known as Home charges.

Sc. 2. Drawbacks of Indian Agriculture.

The defects that are inherent in the four agents of production have been responsible for this backwardness.

In the preceding section we have dealt with the importance of Indian agriculture. We will now proceed to consider the difficulties that stand in the way of the development of such an industry. These difficulties are many in number and will manifest themselves prominently when we go to discuss the factors of production. Production, we know, cannot be carried on except with the assistance of these four agents *viz.* land, labour, capital and organisation. If each of these four agents is free from any defect, production cannot but be efficient. Let us now see how agricultural development is being hampered on account of the inherent defects in each of the four agents described above.

Land and its defects. Dryness of the Indian soil.

Land—The inherent defect that is to be found in this agent is its dryness. The soils are not rich in mineral matters and in consequence, they are less fertile than those of other countries. This character of the soils necessitates adequate supply of water and the application of manure on an extensive scale.

Supply of water. India is mainly dependent upon heaven for the supply of water.

So far as the supply of water, which is the most essential requisite, is concerned, India is mainly dependent upon heaven. In case there is a failure of rains one year there is sure to be a failure of crops. Steps are being taken by the Government to remove this evil by means of irrigation; but much has to be done in this direction. Again, there are parts of India where the introduction of irrigation canal will not be profitable. Thus we see that in spite of all the efforts of the Government the problem of water supply is still unsolved.

The want of mineral properties in the soil requires an investment of sufficient quantity of manures; but the Indian cultivators suffer a great deal for want of cheap articles that can be

Nature of the supply of manure. Insufficient investment of manure.

profitably used as manures. The cow-dung which is recognised as a good fertiliser is chiefly used as fuels by the poor Indians. The exportation of oilseeds from the country generally deprives its land of oil-cakes which contribute greatly to the fertility of the soil.

Condition of Indian labourers The low standard of living and its effect upon efficiency.

Next we come to discuss the supply of *labour*. The supply of labour is measured by the number of labourers as well as by their efficiency. Numerically speaking, India has a large supply of this agent of production but the Indian labourers are not as efficient as those of other countries. Their low standard of living has its worst effect on their efficiency They are illiterate and are not familiar with the up-to-date appliances that are used by the western countries in the cultivation of the soil. They are unenterprising and unambitious. We can very well quote the following lines from Prof. Kale's Indian Economics—"Apart from climatic and other factors which go to make labour inefficient, the Indian worker suffers from the lack of sufficient nourishment, of education, training and ambition."

Condition of agricultural capital. The poverty of the Indian peasants and the insufficient quantit of capital available for investment in land.

Though Indian agriculture is carried on with antiquated appliances and does not require the investment of large quantity of *capital* yet whatever humble capital it requires can be procured by the cultivators with great difficulty. The Indian labourers are very poor and have no funds with them to invest in the land. They are to borrow the amount of capital from the village money-lenders at an exorbitant rate of interest. This capital that they borrow cannot profitably be invested for improving the fertility of the soil but is spent in purchasing seeds, agricultural cattle and plough.

The character of seeds.

The quantitative production per acre is intimately connected with the nature and quality

Best kind of seeds are not preserved.

of seeds sown. The Indian peasants generally do not preserve the best kind of seeds that will increase the output, but, on the other hand, they go on consuming the crops and use the remnants and as such the worst portion of the crops as seeds to be sown in the next season.

The character of agricultural live-stock.

The cultivation of the soil requires the assistance of agricultural *cattle*. India suffers greatly on account of the want of adequate supply of such cattle. They are of inferior quality and few in number. The Indian peasants have to spend a large portion of their humble capital in purchasing and maintaining them and the services that they obtain do not generally renumerate them for the expenditure that they have incurred.

Lack of organisation among the Indian peasants.

Another defect that we generally find is the defective *organisation*. The Indian agriculturists do not as yet know how by means of organisation they can improve their conditions to a very great extent. The increasing association amongst agriculturists to slove agricultural problems, the publication of agricultural pamphlets carrying information about agriculture and the formation of agricultural society on a co-operative basis are still almost absent in this country.

Fragmentation of land is an important defect.

One more important defect that stands against the progress of Indian agriculture is the fragmentation of the soil. This fragmentation has resulted from the following causes viz. (1) The peculiar law of inheritance which provides for distribution of assets among several classes of heirs (2) growth of population and the consequent increase in the number of issues male and female (3) absence of industrial occupation which makes almost every member of family absolutely dependent upon the few acres of ancestral land (4) agricultural indebteness which ultimately leads to an alienation in favour of money-lender

of the share that a particular member of a family happens to possess (5) selfishness which leads to separation among brothers and the consequent division of family property. This fragmentation which is due partly to the peculiar laws of inheritance and partly to the causes referred to above is a great disadvantage inasmuch as it causes some waste of land and capital and makes production on a large scale almost impossible.

The causes of Fragmentation.

Sc. 3. How to improve Indian Agriculture.

We have already dealt with all the defficulties that stand in the way of India's agricultural development. We shall now suggest certain improvements that can be made in the condition of Indian agriculture. In doing so it is better to start with Dr. Voelker's suggestions which appear to be very exhaustive. In his report to the Government of India Dr. Voelker emphasised the importance of the following remedies—(*i*) Extension of irrigation works, (*ii*) preservation of forests, (*iii*) spread of agricultural education, (*iv*) arrangement for research work (*v*) introduction of new and up-to-date implements (*vi*) preservation and distribution of seeds (*vii*) proper arrangement for the breeding of cattle. (*viii*) Advancement of the Takavi loans by the Government. Let us now see how the adoption of each of the means suggested above will lead to the development of Indian agriculture.

Dr. Voelker suggests several remedies against the backwardness of Indian agriculture.

(*i*) *Irrigation* :—India is a country where the soils are very dry and as such require a large quantity of water to render them fit for cultivation. The rain-waters are uncertain and the absolute dependence upon heaven will frequently lead to the failure of crops. This difficulty can be removed by means of irrigation. The types of irrigation work differ according to the quality

The uncertain character of rainfall necessitates the arrangement for irrigation.

Three different types of irrigation works.

of lands to be irrigated. Three types of irrigation-works have already been introduced—(1) Lift-works which consist generally of wells from which water is drawn to meet the demands of water for the purpose of cultivation. This system of irrigation prevails in Madras, Bombay the United provinces and in the Punjab. (2) The storage-works consisting of reservoirs of water (3) the river-works or the irrigation canals that have been constructed for this purpose. The Jumna canal of Firoz Shah is an example of such irrigation canal. In Bengal the Midnapur canal has rendered services to the adjoining lands. The Government of India is endeavouring to improve the irrigation system but the expenditure that it has incurred in this connection is still very small in comparison with its expenditure in other directions. Besides these Government undertakings, initiative has sometimes been taken by private citizens. The Government has also encouraged such private enterprise by granting Takavi loans and by exempting lands improved by private irrigation from the enhancement of revenue due to such improvement.

Govt. has undertaken to solve the problems of irrigation but its expenditure on their account has been disproportionate to the intense demand for irrigation works.

The irrigation works opened by the Government have been divided into two classes (1) Major works and (2) minor works.

Major works and minor works.

The major works again have been classified into (1) productive public works and (2) protective works. The former consist of those which are expected to be productive in the long run, while the latter consist of works which have been opened only as protective measures against the occurrence of famines. The Famine Insurance grant is generally utilised by the Government in the construction of these major works. The minor works consist of those small irrigation works the maintenance and extension of which have come under Government hands. The Government sometimes keeps accounts of expenditure and revenue for these works.

The famine Insurance grant has been used for the construction of irrigation works.

The total irrigated area in British India is near about one-fifth of the total cultivated area. The necessity of irrigation is not equally important in all parts of India. There are parts e. g. Bengal and Assam, where the rainfall is almost regular and as such the question of irrigation is not at all important in these provinces. Again, there are parts of India where the soils do not permit the construction of irrigation works. This is the case in Rajputana and such other desert areas of British India. Though the Government of the country has contributed much to the development of irrigation in India the area protected by private irrigation is larger than that irrigated by the state. There are provinces e. g. Madras, Sind and the Punjab where irrigation is expected to be productive and the Irrigation Commission of 1901-3 recommended the construction of new work in those areas Again there are areas such as the Central Provinces, the Deccan district of Bombay where protective irrigation is urgently required. The Government of India has proceeded on the lines recommended by the Irrigation Commission and its expenditure in this connection has been considerably higher in recent years. Several canal schemes such as Grand Trunk canal in Bengal, the Lower Sutlez canal and the Sukkur Barrage in Sind are still under the consideration of the Government and if these schemes are given effect to they will be remunerative. The total amount of capital that the Government has invested in irrigation exceeds 103 crores of rupees. The income derived from this source amounts to about 6 crores of rupees. The owners and the occupiers of the soil are liable to pay the cost of irrigation and in this way the amount spent by the Government is realised. The Government also derives certain subsidiary incomes in the shape of tolls

Irrigation.

Where irrigation is not possible.

for navigation and rents of fisheries. Since the Reforms of 1919 irrigation has been a provincial subject. The importance of irrigation and its effect on the economic well being of the people can never be exaggerated. Besides yielding considerable revenue to the Government it has helped the agriculturist by a regular supply of water and by increasing the productive power of the land. The land-holders are also benefited because they can conveniently increase their rent when the productivity of the soil increases. The introduction of irrigation canals in the Punjab has converted desert into an area of abundant crops and led to an influx of population in those areas. Such colonisation commenced with the construction of the Chenab canal, the Jhelum canal and the Punjab Triple canal.

Importance of irrigation.

In order that the system of irrigation may be improved the co-operation of the people is absolutely necessary. The agriculturists should understand their own duties and should not depend upon government absolutely. They should try to make provision for the supply of water by the construction of tanks and wells; when they are not in a position to supply the whole fund they should approach the government which in its turn should lend out money at a lower rate of interest.

The usefulness of forests.

(ii) *Preservation of forests*:—Great care should be taken to preserve the Indian forests inasmuch as they by regulating the flow of rivers, preventing floods and furnishing springs with a perpetual supply of water form the head works of nature's irrigation scheme. The Government of India has taken upon itself the task of preserving the forests. It has created a Forest Department which is in charge of nearly $\frac{1}{7}$ of the total forest area.

(iii) *The spread of agricultural education* :—We have seen that chronic ignorance of the peasants is one of the causes of India's failure in agricultural industry. Indian peasants are not aware of the up-to-date appliances that can be profitably utilised in agriculture nor have they any knowledge of the best kind of manures which can be applied for improving the quality of the soil. The first step that is to be taken in this connection is to make proper arrangement for the elementary education of the Indian peasants and when this has been done the next step will be to spread agricultural knowledge by the publication of journals containing such knowledge. The Government of India is trying to impart agricultural education by establishing several agricultural colleges at Pusa and some other places but its endeavour in this connection is as yet quite unsatisfactory.

Chronic ignorance of the peasants must be removed at any cost. The next step will be to publish agricultural pamphlets.

(iv) *Arrangement of research work* :—There should be adequate provision for reserch work in Indian agriculture. The Government will do well to award scholarships to the students who are trying their utmost to invent new processes of cultivation and new methods of improving the fertility of the soil. Students should be sent abroad to learn the secrets of agricultural success.

Adequate provisions should be made for Research Works.

(v) *Introduction of new and up-to-date implements* :—The productivity of the land depends not only upon the fertility of the soil but also upon the nature and quality of instruments that are used in cultivation. We cannot expect that man will with the help of antiquated appliance produce as much as will be produced by another working with the best possible kind of appliances. Hence attempts should be made to familiarise the Indian peasants with the up-to-date appliances.

Up-to-date implements should be used to improve the methods of production.

The intimate connection of production with the seeds that are sown

(vi) Preservation and distribution of seeds :— The yield per acre is intimately connected with the quality of seeds sown. The Indian peasants do not take care to preserve the best kind of seeds for the next season and the result is that plants which come out of them do not bear sufficient quantity of crops. Efforts should be made to preserve the best kind of seeds.

The efficiency of the cattle depends upon good breeding. The services of the civil veterinary department.

(vii) Proper arrangement for the breeding of cattle : The agricultural live-stocks of India are generally of inferior quality. They are feeble and cannot be worked hard. The poor peasants have to spend much in feeding such cattle but they do not get as much benefit as would pay for the actual expenditure. This evil can be removed by the establishment of breeding farms at different centres. The Government has established civil veterinary department for the treatment of diseases with which the cattle are generally attacked but, adequate arrangement has not yet been made for the proper breeding of such cattle. Again the existence of slaughter houses where prime cows are generally killed has been the most important cause of the diminution of cattle in this country. The restriction on such slaughter is conducive to the interest of the Hindus and the Muhammedans as well.

The Takavi loans may relieve the peasants from the yoke of the usurers.

(viii) Advancement of Takavi loans :—The want of cheap credit has hampered the agricultural progress of India. The agricultural banks of the kind to be found in western countries are unknown in India and the poor agriculturists have no other alternative but to approach the village money-lenders who charge an exorbitant rate of interest. The Government with a view to remove this difficulty has made arrangement for the grant of agricultural loans known as Takavi loans. But the illiterate peasants of India who look upon the Government officials with suspecion rarely take advantage of this opportunity.

(ix) Co operative Credit Societies : —It is not desirable that people of India should be absolutely dependent upon the Government for the removal of any and every difficulty. The establishment of co-operative credit societies is an indication of a rising sense of self-help among the Indian peasants. The Government also is endeavouring to stimulate this spirit of self-help by conferring certain privileges upon these credit societies. The co-operative credit societies have done yeoman's service by cheapening credit among the poor peasants, but the number of such societies is not sufficient to meet the total demand for credit in so vast a country as India.

The Co-Operative Credit Societies can solve the problem of agricultural indebtedness in a great measure.

x Legislative enactments to prevent fragmentation of land :—On account of peculiar law of inheritance prevalent in this country the existing lands of India have generally been partitioned into smaller pieces. The result is that the Indians can scarcely reap the advantages of large scale production. To remove this difficulty what is necessary is to appeal to the legislature of the country so that laws may be made to prevent the fragmentation of land.

The Legislature should be asked to make laws regulating the fragmentation of the soil.

Sc. 4. Agricultural indebtedness and its causes.

The Indian peasants are over head and ears in debt. There are very many causes that have been responsible for this indebtedness. The most important of these causes is the defective credit system of the country. The agricultural bank is conspicuous by its absence in this country and the poor peasants have no other alternative but to borrow money at an exorbitant rate of interest from the village money-lenders.

Causes of agricultural indebtedness (i) The defective credit system.

(2) The next important cause is foreign competition which lowers the price of Indian goods. (3) Periodical droughts and famines play no less important part. (4) An increase in the revenue

(ii) The foreign competition lowering the price of Indian goods.

(iii) Periodical droughts and famines.

(iv) Revenue extorted by the Govt.

(v) Improvident habits.

(vi) Ignorance and conservatism.

(vii) Fragmentation of land.

(viii) Want of subsidiary sources of income.

(ix) Over-production.

(x) Govt. interference with exchange

to be paid by the temporary settled districts has its effect upon agricultural indebtedness (5) The improvident habits and bad social customs are not less important factors. (6) Ignorance and conservatism of the people are also responsible for this indebtedness of the Indian peasants.

(7) The cost of production is higher in India on account of the fragmentation of land and the consequent small scale of production.

(8) The absolute dependence upon agriculture for subsistence and absence of subsidiary sources of income make it almost impossible for the Indian peasants to clear their debts when the crops fail.

(9) India has to sell its raw materials in foreign countries and if it fails to adjust its production to the total demand both internal and external the result is overproduction which leads to a fall in prices.

(10) Lastly artificial rise in the value of rupee as effected by the Government has lowered the price of agricultural crops and told heavily upon the fortune of the poor peasants.

The Punjab Land Alienation Act.

As a result of this indebtedness most of the Indian peasants have been deprived of their proprietory interest in the land and the village money-lenders have managed to become the proprietors of the land of their village. This transfer of land from the hands of the agriculturists to the money-lender is a great evil which every Government should try its utmost to remove. The Government of India has passed several acts to check this transfer of lands. The Punjab Land Alienation Act which was passed in 1900 prevented the sale of land to any one but certain agricultural classes. The Bundelkand Act also restricted the right of alienation to be exercised by the agriculturists.

The Takavi loans Co-operative Societies.

The Government also has tried to remove the agricultural indebtedness by the grant of Takavi loans at a very low rate of interest but this generous offer has not been cordially accepted by the poor and ignorant peasants on account of the rigid formalities involved in such lending operations. The Government has adopted other means of removing the indebtedness. This consists in encouraging the introduction of co-operative credit societies.

Sc. 5. Co-operative credit Movement.

The suggestion came from F. A. Nicholson.

We have seen above that Co-operative Credit Societies have been established with a view to provide the poor peasants with cheap and easy credit. We shall now discuss the co-operative credit movement in all its various forms. The suggestion of the establishment of the co-operative credit societies of the *Raiffeisen type* came from Mr. F. A. Nicholson who had been asked by the Government of Madras to inquire into and report upon the possibilities of the establishment of agricultural banks in Madras. On the basis of that recommendation many co-operative societies came into existence in several provinces *e.g.* Madras, Bengal the United, Provinces, the Punjab.

The Co-operative Credit Society Act of 1904 and its provisions.

When several such banks or societies were established in different provinces the Government felt the necessity of passing an act which would take these societies out of the general laws regulating the establishment of ordinary companies and which would make provisions for conferring certain privileges upon the members of such societies. Accordingly, an act was passed in 1904 making detailed provisions for the formation of co-operative credit societies and the nature of business to be transacted by them. Let us now study the important provisions of this Act :—

Rural and urban societies.

(1) The co-operative credit societies might be either urban or rural. The societies of which four-fifths of the members were agriculturists were known as rural societies and those which were formed otherwise were called urban societies. The minimum number of members was 10 in each case.

The nature of business transacted.

(2) The business of these societies was to accumulate funds partly by means of deposits from the members and partly by means of loans from outsiders and to utilize the fund by way of loans to the members at a rate higher than the rate at which money had been borrowed by the societies but still lower than what was charged by the village money-lenders.

The Registrar of co-operative societies.

(3) There was in each Presidency a Registrar of Co-operative Societies who was in charge of those societies and who was entitled to audit the account of the societies.

The distinction between rural and urban societies.

(4) The urban societies differed from the rural ones both in respect of liabilities of the members and the division of profits among them. In rural societies the liability of the members was unlimited while in urban societies the liability was limited. Again, in rural societies no provision was made for the distribution of profits among the members. At the end of the year the profits were transferred to a Reserve Fund and a bonus might be given when the Reserve Fund had reached a certain figure. In urban societies on the other hand only one-fourth of the profit was to be transferred to the Reserve Fund and the rest was divided among the shareholders.

The Act of 1912 and its object.

The Act of 1912—The Act of 1904 was solely concerned with the co-operative credit societies; but as time went on other co-operative societies of different character made their appearances. An act was therefore needed to give recognition to such new societies. The Act of 1912 was

accordingly passed. This act recognised the existence and formation of societies which were other than credit societies. It abolished the distinction that was formerly drawn between urban and rural societies but it retained the characteristic of unlimited liability in the case of rural societies. This act made provision for the formation of three kinds of Central Societies *viz.*. unions among Co-operative Credit societies, Central Banks and Provincial Banks and for the distribution of profits in case of credit societies with unlimited liability. The term 'unlimited liability' requires some explanation. It means contributory unlimited liability, that is, when there is a deficit in the engagement of a society to its creditors, this deficit should, after a full payment of shares if any, be recoverable by a series of *per capita* levies upon the members upto the full extent of their property; direct proceedings by a creditor against constitutional members being forbidden.

What the Government has done for Co operative Societies?

How the Government has encouraged such societies.

The Government has done a great service to the peasant community by stimulating the establishment of co-operative credit societies. Such a stimulus has been given by the Government by conferring certain privileges upon these societies. The Government, however, has retained the power of controlling the Co-operative societies by auditing their accounts and by making necessary laws for their guidance. The following are the privileges granted to the co-operative credit societies.

The privileges.

(1) Exemption from stamp duties, income taxes etc,

(2) Summary methods of realising the debts due to the societies.

(3) Entry in the account book of the company is a sufficient evidence for the recovery of money.

(4) They have priority over the claims of other creditors.

(5) The shares are exempted from attachment for the private debts of the shareholders.

Sc. 6. Different kinds of Co-operative Societies.

Three classes of such societies.

There are three classes of such societies. (1) The primary societies. (2) The central banks. (3) The provincial banks.

Guaranteeing unions—How they are formed ; their functions

Central Banks.

The primary societies again may be of various kinds—(1) agricultural, (2) non-agricultural, (3) credit, (4) non-credit. A number of primary societies may combine and form guaranteeing unions. Such unions among the co-operative credit societies generally lead to a spirit of co-operation and the surplus fund of one is utilised in meeting the demands of others. Again, these guaranteeing unions have generally accounts with the jointstock banks of the country and can borrow money from the outside money market to help the societies which are their members. They serve as a link between the primary societies and the Central Banks. The Maclagan Committee recommended the creation of such unions. It also emphasised the importance of Central Banks which would help the societies in times of financial difficulty.

The Provincial banks and its relation with co-operative societies.

The provincial banks that have been established in several provinces of India bear the same sort of relation with the central banks as the latter bear with the individual societies. They supply the unions with funds and do away with the necessity of taking recourse to outside banking organisation. Thus we find that a good deal of solidarity of interest exists among the three classes of organisations mentioned above.

Number of co-operative societies.

Sc. 7. Number of Co-operative Societies.

The number of co-operative societies in India is going on increasing day by day. The number of agricultural societies is larger than that of other societies. In 1927-28 there were as many as 96000 societies with a working capital of about Rs. 77 crores.

In Bengal there are about 19877 agricultural co-operative societies at the present time. These are mainly credit societies. The non-agricultural societies which comprise the weaving societies, the fishermen's societies and milk societies are very few in number. This shows that spirit of co-operation is not as yet very keen in these spheres of human endeavour.

A table containing the number of various societies and of their members.

Type.	No of societies		No. of members.	
	1906-10 average	1928-29	1906-10 average.	1928-29
Central (including Central and Provincial banks and quaram being unions	17	2012	1986	25000
Agricultural	1713	88,377	107640	3009898
Non-agricultural	196	9761	54267	992,290

Sec. 7. (a) Why the Co-operative Societies should flourish in India.

India is a country where the people are mostly illiterate and conservative. They are found to spend their humble income recklessly. Again, they are less enterprising and will not

take the trouble of borrowing money from a distant village though money can be had there at a lower rate of interest. A study of these characteristics of the Indians led Mr. Nicholson to prefer the co-operative credit societies to State or Central Banks. The co-operative credit societies have the following advantages viz.

Advantages of co-operative organisation.

(1) Such a society may be formed in villages so that the villagers will be in a position to borrow money in their own village and will not have to go abroad in search of creditors. (2) The villagers who will form such association will know one another and the confidence in the institution will for that reason be stimulated. (3) The villagers will find the advantages of such a society and invest their surplus income in it. (4) There will be no necessity for the migration of capital from the village. (5) The members of such a society will generally live in the same village or adjoining villages and will be able to watch whether money borrowed is spent for the purpose for which it is borrowed. (6) Such societies will help the Government in publishing scientific knowledge regarding agriculture.

(7) The co-operative credit societies make it possible for the poor peasants to get loans at a lower rate of interest. They understand the utility of becoming members of such societies and deposit their humble savings in the vault of those societies. The funds that would have remained idle are thus invested to the benefit of the poor agriculturists. In short, the co-operative credit organisation has liberated the poor peasants from the "usurer's yoke".

The benefits are economic, social, educational, and political in character.

(8) The next important benefits derived from co-operative credit societies are social and educational in character. The members of such societies have to conduct the detailed works and thus have the facility of gathering some business

experience. (9) Again the solidarity of interest and the keen sense of co-operation which form the basis of such organisation make the peasants good and responsible citizens.

The co-operative organisation brings with it certain political or rather administrative benefits. A spirit of common interest, which such an orgainsation gives birth to lies at the root of every minor organisation that is to be found in villages for improving their sanitary condition. The Government can easily perform its duties by granting aid to these organisation and the relation so created between the village organisation and the Government is no doubt of great political value.

Sec. 7. (b) Slow progress of the co-operative movement : its causes.

Although co-operative movement is gaining ground every year the rate of progress has not been satisfactory. The number of villages that at present derives the benefit of co-operative societies is exceedingly small. This slow progress of co-operative societies has been attributed to the following causes:—

(1) The illiteracy and conservatism of the villages hamper the growth of co-operative spirit among them: (2) Want of self-reliance and increasing dependance upon the Government for the solution of each and every problem. (3) Want of that public spirit which makes a man honest in his dealing with others and brings a keen sense of responsibility in public affair. Often we find that the funds of co-operative societies are misappropriated by those who are in charge of them. (4) the shortage in the supply of capital which makes it impossible for the credit societies to lend money for a long period of time. (5) Want of publicity of

Defect of co-operative organisation.

accounts of such societies which often destroys public confidence in them. 6 Loans are made by these institutions for unproductive purposes to the influential members with the result that the funds available for agricultural purpose are inadequate. (7) Want of an All-India institution to co-ordinate the activities of co-operative organisations. Such an institution will lead to greater mobility of capital from one province to another. The surplus fund of one province will be available for making up the deficiency of another. The international aspect of the question of co-operation was discussed in the conference which met at Stockholm in 1927. The conference recommended the establishment of co-operative banks on a uniform basis so that the creation of an International co-operative Bank might be possible in the near future.

Sc. 7(c). The recommendations of the Maclagan Committee.

This committee was appointed in 1914 to enquire into and report upon the co-operative movement in India. The committee emphasised the necessity of a Reserve Fund in the shape of surplus assets. The members should be honest in their dealings and should take sureties in all cases. Loans should never be made for speculative purposes. Attempts should be made to encourage thrift and attract long-term deposits by offering higher rates of interest. Stress was laid upon the formation of guaranteeing unions which would serve as a link between the financing agencies and the primary societies and would undertake the supervision of the affairs of the societies. The committee recommended that there should be original audit undertaken by a staff maintained by the societies and in addition there should be a super-audit by a special government staff.

The committee fully appreciated the usefulness of central and provincial banks and further recommended the establishment of an All-India Co-operative Bank which would render financial assistance to the Provincial banks.

Sc. 7(d) Land Mortgage Banks.

A study of the co-operative movement in India tells us that co-operative organisations cannot wipe off the indebtedness of the agriculturists because their funds do not permit the making of loans for a long period of time. Hence the necessity of Land Mortgage Banks has been keenly felt. It has been argued that the establishment of such banks will not have the moral and educative influences which co-operative organisations are found to exercise upon the agriculturists. There is some truth in the above argument but such banks are urgently required for improving permanently the economic condition of the agriculturists. The first bank of this type was Land Mortgage Bank of India Ltd.,which was established in 1863. It was foreign concern with its head quarters in London. This bank failed on account of its speculative investment. In recent times several banks of this type have been established. We find such banks in Bombay and in the Punjab. Other provinces have also taken steps to introduce such banks.

Sc. 8. Facilities of Transportation.

Facilities of communication and their influence on economic development

The facilities of communication play a very important part in the economic development of a country. When we study the causes of industrial development of a country we cannot ignore the influence exercised by the opening of means of communication. Great Britain, we all know, owes its industrial success in no less degree to the excavation of the Panama Canals and to the construction of British Railways. This has been the case with India too.

Sc. 9. Economic advantages of Railways.

(1) They have driven out the economic isolation of primitive villages and have been responsible for the new spirit of inter-dependence to be found among different villages.

(2) The market for commodities has been widened and in consequence production on a large scale with all its advantages is now possible.

(3) They have led to the localisation of industries in centres which afford natural advantages for such localisation.

(4) The services rendered by the Railways in preventing the recurrence of famines can never be exaggerated. The surplus crops of one part can easily be transferred to the famine striken area to remove the distress of the people.

(5) They have offered opportunity for the free mobility of labour and have thereby solved the problem of unemployment to some extent.

Advantages to the pilgrims and expeedy exchange of opinions.

(6) They have annihilated distances to the advantage of the pilgrims who can now satisfy the burning desire of visiting holy places easily and with trifling expenses. Again, they have brought the different parts of India into an intimate touch with one another and have made free and speedy exchange of opinion possible.

(7) The cheap and easy means of communication have brought about an equalisation of prices all over India. The price of crops in a particular village has now little or no reference to the amount produced in that village.

The railways, however, cannot be regarded as an unmixed boon in India. The railways have facilitated the importation of cheap foreign articles and have thereby destroyed the indigenous industries. Again railways have thrown open to foreigners an opportunity of investing their capital in it and India is keenly feeling the evil effect of such investment.

Sc. 10. The Construction of Railways and its History.

The construction of railways was first contemplated in 1845 when authority was given to three companies to open railways here in India but the question of extension came in only during the administration of Lord Dalhousie. The history of Railway construction can be divided into three well-defined periods. First period extends from 1850 to 1869. The second period began in 1869 and continued till 1879. The third period commenced in 1879 and is continuing up to the present time.

The Railway history can be divided into three well-defined periods.

(*i*) *The First period*—The system of railway construction which existed during this period was technically known as the Guarantee System. The system was so named because the Government undertook the responsibility of guaranteeing a minimum rate of interest upon all capital that would be invested by the companies for Railway purposes. The object of so guaranteeing the rate of interest was to encourage the investment of foreign capital in the construction of Railways. Thus if the minimum rate of interest guaranteed by the Government was 5 p.c. and the net profit did not cover more than 4 p.c., the Government had to pay out of its own treasury a sum of money so as to make up that 5 p.c. rate of interest.

The Guarantee system of Railway construction The Govt. guaranteed the minimum rate of interest.

Again in this system of railway construction the Government retained the rights of purchasing the Railways after the lapse of 25 years at the mean market price of the shares during the three preceding years. Again the railways would, under that system become, at the expiration of 99 years, the property of the Government which would have to pay only the market value of the rolling stock and other moveable property. The companies likewise had the rights of surrendering the railway lines after six months' notice.

Provision for purchase by the Govt.

The defects of the Guarantee system led to its abolition in 1869.

This system of railway construction did not prove successful on account of certain inherent defects such as (1) unlimited liability on the part of the Government, (2) want of economy in construction and was finally abolished in 1869.

The State Railway system which meant direct construction of railways by the Govt.

(*ii*) *Second period 1869-79.* The period of guarantee system was followed by one of direct State Railway system. Under this system the railway lines were constructed directly by the state without any help from outside companies. This attempt of the Government proved a failure within ten years because of the want of adequate funds and the government had no other alternative but to take recourse to a new form of Guarantee system.

The new Guarantee system; how it differed from the old one.

(*iii*) *The third period from 1879 to the present time*—We have seen that in 1879 the State Railway System was replaced by a new form of Guarantee System. This Guarantee system differs from the old Guarantee System in two main points:—First under this system the Government is the proprietor of the Railways constructed while under the old system the companies that took the risk of construction were the proprietors. Secondly under the new system the Government subscribes a part of the capital and guarantees the amount of capital invested by the companies. Whereas under the old system the companies supplied the whole capital and the Goverment merely guaranteed the rate of interest. The construction of railways has a very rapid progress in recent times. India has near about 38500 miles of railroads at the present time. The Government of India has contributed to the development of the railways under two principal systems viz. (1) the Pure State Railway system which speaks of a direct and active participation in the construction and working of the railways. (2)

The subsidised system under which the Government assists the companies who invest their capital and encourage them.

Sc. 11. The arrangement of Railways.

The question of management is to be distinguished from that of ownership. The railways might be owned by the state in spite of the fact that the management rests in the hand of companies. As for example the G. I. P. and N. W. R. lines, though owned by the state, are managed by the companies under a system of lease. Again there are railways such as E. B. R., E. I. R. and others which are owned and managed by the state. Almost 75 per cent of the route mileage of Indian Railway is owned and 47 per cent is directly managed by the state. The control of the railways is vested in the central Government which discharges its duty through a body known as the Railway Board. The Board consists of the chief commissioner, a financial commissioner and three other members and is assisted by five directors. A new system of administration has been introduced into India. Under this system of administration the whole railway has been placed under the supervision and care of an 'Agent' to whom all other administrative officers are responsible. Let us now turn to discuss the respective merits and demerits of the state and the company management of railways.

Different kinds of railway management.

Sc. 12. Advantages and disadvantages of State management.

(i) *Advantages of State Management and disadvantages of Company Management.*

(*a*) The state management of railways is conducive to the interest of the Indians

because the Government is expected to take much more interest for the welfare of the people than a private company would do. Local advisory committees have now been established in almost every railway, so that the railways may be managed in accordance with the advice of the general public.

(*b*) There will be a great scope for the employment of Indians in railway offices and the problems of unemployment will be solved to a certain extent. The personnel of the lower and subordinate ranks is predominantly Indian and the superior or gazetted ranks are being occupied by the Indians gradually. In 1929-30 of the officers recruited to the permanent establishment 71 per cent. were Indians.

(*c*) The Government may lower the fares for the benefit of the passengers and encourage the industries by charging reduced freights for the transportation of raw-materials as well as the finished products.

(*d*) In state management it is expected that no discrimination will be made between Indian and European traders.

(*e*) The administration of railways will be less expensive because of the possibility of large scale management.

(*f*) The railways will be constructed in those places where such construction will be required for the safety of the country although it might not bring sufficient revenue to remunerate the Government.

(g) *It will offer opportunities for the training of the the military men.*

(ii) *The Disadvantages of State Management and Advantages of Company Management.*

(a) The State management means a management by state officials. These State officials who are sure of the fixed salaries are not expected to take as much interest in the management as the private companies will take.

(b) The existence of State Railways side by side with Company Railways will lead to the sacrifice of the latter's interest for the benefit of the former.

(c) The Government will enter into commercial sphere and the political interest may cause a deviation from purely commercial policy.

(d) Since the management will be made by salaried officers there will be extravagance in the construction of railways. The railway lines may be constructed in those districts where the chance of profit is not very great.

(e) The companies will generally determine seniority among the railway officials with reference to their efficiency and this fact will serve as stimulus to them to exert themselves to the best of their ability.

Sc. 13. The report of the Acworth Committee and the separation of Railway Budget.

The Acworth Committee which was appointed by the Government to enquire into the railway administration in India published its

The recommendations of Acworth Committee; increasing associations of Indians in administration. The companies of Indian domicile favoured. The separation of the railway budget.

report in 1921. The committee pointed out the defects of the railway administration and made certain recommendations the most important of which was the separation of the railway budget from the general budget of the Government. It recommended that there should be increasing association of the Indians in the working of the railways. The members of the Committee were bold enough to suggest that the management of the railways should not be left with the companies of English domicile while the companies of Indian domicile might be entrusted with the same functions. The majority of the commissioners were in favour of the state management of Railways.

The recommendation of the Legislative Assembly to the Governor General of India.

On the basis of the recommendation made by the Acworth Committee the Legislative Assembly passed in 1924 a bill recommending to the Governor General of India that the railway budget should be separated from the general budget and that certain contribution should be made every year by the railway department to the general revenues. The amount of such contribution would, according to the resolution of the Assembly be one per cent. of the capital at the charge of commercial lines at the end of penultimate Finance Year plus one-fifth of any surplus profit in that year. The surplus profit that would remain after the payment of contribution would go to constitute a reserve fund to be spent mainly for the development of the Indian railways.

Sc. 13(a). The effect of railway rate on industries.

The Indian industries have often been seriously affected by the rates which the articles have to pay when they are conveyed from one part of the country to another. The freight charges on raw materials when they are carried

to the ports are lower and this low rates at the port has been responsible for the heavy export of raw materials to the prejudice of the Indian industries. The low freight is charged not only on the raw materials when they are carried to the ports for exportation but on imported finished products when they are conveyed into different parts of India. This method of fixing rates, however sound it may be from the financial point of view, has seriously handicaped Indian industries. Again, the favourable port rates has led to the concentration of many industries near port towns causing difficulties in the supply of labour.

Effect of low port rates.

Another defect in the railway rates lies in the block rates i. e. higher mileage charges for short distances imposed upon commodities which want the service of another system of railways for a longer distance. This system has not been supported by the Industrial Commission. The system of fixing rates according to the distance travelled on each line is another difficulty which stands in the way of India's industrial success.

Block rates.

Sc. 14. Other means of Comunication.

We have discussed above the importance of the railways in the economic development of India and the facilities of communication effected by them. We shall now turn to discuss other factors that have been instrumental in revolutionising the methods of communication. These factors include three important means of communication. *viz.* (1) The natural water-ways (2 The canals. (3) The Road ways. *The most important of the navigable rivers of India* are the Ganges, the Brahmaputra, the Irrawaddy and the Indus. These rivers have added to the wealth of India in the sense in which the Thames may be called a permanent source of prosperity to England.

Three other important means of transport—(1) the rivers (2) the canals (3) the road ways.

(2) *The construction of several canals* such as the Ganges canal and the Buckingham canal has increased the facilities of communication in those parts of India through which they pass.

The condition of road-ways has been improved by the efforts of District Boards and Municipalities

(3) *The Roadways* - In ancient India the metalled road of the type that we find in modern times was unknown. During the Mogul period several important roads were constructed for military purposes. The Mogul rulers did not mind the improvement of ordinary roads to be used by the travelling public. With the advent of the British rule in India the conditions of public roads have improved very much. There are District Boards, Local Boards, Municipalities to look after the construction and repair of the roads within their respective jurisdiction. But in spite of all the efforts made by the above associations metalled roads are few in number.

Questions and Answers.

Q. 1. Discuss fully the defects and difficulties of Indian Agriculture. What methods would you suggest for its improvements ?—(C. U. 1920).

Ans. *See*—Sec. 2.

Q. 2. The problem of Indian agricultural development is mainly a problem of water supply. Discuss the various ways by which attempts have been made to solve this problem—(C. U. 1926).

Ans. *See*—Sec. 3.

Q. 3. What are the obstacles in the way of agricultural improvement ? How would you meet them ?—(C. U. 1927).

Ans. *See*—Secs. 2-3.

Q. 4. Account for the causes of agricultural indebtedness of India.

Ans. *See*—Sec. 4.

Q. 5. Examine the measures adopted by the Government to solve the problems of agricultural indebtedness of this country.—(C. U. 1922).

Ans. *See*—Secs. 4-5.

Q. 6. Describe the scope of co-operation in the field of agriculture in India.—(C. U. 1921).

Ans. *See*—Sec. 5.

Q. 7. What are in your opinion the criteria by which the success of

co-operative movement should be judged ? Has the movement succeeded in Bengal ? Give facts in support of your answer—(C. U. 1928).

Ans. *See*—Sec. 5.

Hints—The success can be judged with reference to the number and varieties of co-operative soctety—The number is increasing every day. In Bengal alone there is 10000 agricultural co-operative societies. The number is less in other spheres of human endeavour.

Q. 8. What is the position of provincial co-operative banks in the co-operative organisation of India ? Is it necessary to create an All-India institution to finance the provincial banks ? —(C. U. 1928.)

Ans. *See*—Sec. 6.

Q. 9. What are Guaranteeing Unions ? —(C. U. 1922.)

Ans. *See*—Sec. 6.

Q. 10. Describe the effects which Railways have produced on the industries and on economic conditions on the people of India—(C. U. 1927.)

Ans. *See*—Sec. 9.

Q. 11. State the Guarantee System of Railway constructions—(C. U. 1926.)

Ans. *See*—Sec. 10.

Q. 12. The Railways in India are owned and worked under a variety of condition. Examine with reference to the history of the railway construction of India the circumstances that account for this variety—(C. U. 1925.)

Ans. *See*—Sec. 10.

Q. 13. Examine the case for and against the state management of railways—(C. U. 1922.)

Ans. *See*—Sec. 12.

Q. 14. What recommendation did the Acworth committee make in connection with the management of railways ?

Ans. *See*—Sec. 13.

Q. 15. What led to the enactment of the Co-operative Societies Act 1912 ? In what respects has this act been an improvement upon the Co-operative Credit Societies Act 1904.—(C. U. 1931.)

Ans. *See*—Sec. 5.

Q. 16. What are in your opinion the defects and difficulties of Indian agriculture ? What steps would you suggest for their removal. (C. U. 1931.)

Ans. *See*—Sec. 2.

Q. 17. Write notes on (i) 'unlimited liability', (ii) The Co-operative Agricultural Sale Society. (C. U. 1931.)

Ans. *See*—for (ii), *See*—Sec. 7.

Notes—A company or a society is said to be with unlimited liability when the members of such company or society are liable to an unlimited extent for the debts of the company or society. The liability in such a case is not limited to the extent of the share purchased by a member. He may have a small share but he will be liable from the entire debts of the society. In India the agricutural co-operative Societies possess generally the characteristics of unlimited liability.

Q. 18. State some of the striking economic and social effects that have followed from the construction of railways in India. Do you think that any further extension of the Indian railway system is desirable. (C. U. 1931.)

Ans. *See*—Sec. 9.

Q. 19. Discuss the effect of the present method of fixing railway rates on Indian industries ?

Ans. *See*—Sec. 13 (a).

CHAPTER V.

ORGANISATION OF INDIAN VILLAGE

Sc. 1. Primitive village and its organisation.

Self-sufficient nature of primitive villages.

The primitive villages were self-sufficient units. The defective means of communication did not allow the growth of a spirit of inter-dependence between different villages. Although nature had not distributed her resources equally among different villages it was useless to sit idle for that reason. The villagers must exert themselves to produce all the articles that were necessary for every-day use and could not depend upon their neighbours for the supply of those articles in the production of which they had comparative advantage. This brings us to consider the organisation by means of which the inhabitants for ancient villages managed to supply themselves with the articles that they required.

Organisation was based on caste system.

When we go to study the organisation of primitive villages we find that underlying such organisation there was the caste system. The occupation of the people was not dependent upon choice but was determined beforehand by the caste to which they happened to belong. Thus even in this ancient society the conception of division of labour in crude form was not unknown.

There were different classes of functionaries.

The caste-system which lay at the root of village organisation divided the population of the village into several classes each of which was given a specified functions to perform. There were the agriculturist who remained engaged in cultivating the soils. There were other functionaries such as the potter class,

the barbar class, the carpenter class and the washerman class each engaged in their hereditary duties.

The system of exchange.

The system of exchange was one of barter. There was mutual exchange of services and the use of money as a medium of exchange was unknown.

The head-man of the village held an important position.

The control of this organisation was vested in the headman of the village. He used to hold the position of an arbitrator to whom disputes of various descriptions were referred. He sometimes undertook the responsibility of the collection of revenues.

Village fair.

There was a village fair where the articles of several adjoining villages were exhibited for sale. We may term it as a kind of exhibition of the artistic skill of different villages.

Sc. 2. Economic advantages of village organisation.

Here we are speaking of the advantages that followed from the primitive organisation of a village. The advantages may be briefly described in the following manner.

(*i*) Each village was self-sufficient unit and used to produce by means of organisation among themselves whatever articles might be required by them.

(*ii*) A crude form of division of labour *i. e.* one based on caste system was noticeable in such an organisation.

(*iii*) There was a spirit of unity among the villagers. This was due to the fact that there was mutual exchange of services among the villagers.

(*iv*) They villagers used to live peaceful life. They had few wants and they remained satisfied with the absolute necessaries of life, "Simple living and high thinking" was their ideal.

Sc. 3. Defects of primitive organisation.

The primitive organisation with all its merits was not free from defects. The defects inherent in such organisation can be briefly described in few sentences :—

(*i*) Self-sufficiency is no doubt desirable but there often comes a time when the importance of inter-dependence cannot be ignored. There is no such village where failure of crops has never occurred. In times of famine the self-sufficient village comes to know that it is impossible for it to go on without the help of other villages.

(*ii*) The division of labour which is based on Caste System does not give very satisfactory results. Men belonging to one cas te may possess aptitudes for the profession of another caste and in such cases society will be loser if the caste prejudices stand on their way.

(*iii*) As there was want of competition in primitive organisation the society could not derive the benefit that followed from competitive production.

(*iv*) The barter system of exchange which was one of the characteristics of primitive organisation caused inequitable distribution of the wealth of the village.

(*v*) The market for the commodities was narrow with the result that the economics of large-scale production could not be derived. The prices of commodities had little or no reference to the external demand and supply and the mobility of labour was almost absent.

Sc. 3(a). What is meant by a caste ; the origin of the caste system.

A caste may be defined as a collection of families, (1) claiming a common descent and

Origin of caste system.

engaged in a specific occupation. It is very difficult to assert dogmatically when it came into existence. In Vedas and Puranas caste system has been referred too. This shows caste-system was prevalent in the vedic ages. The Aryans might have adopted this system in their struggle to adopt themselves to the changing circumstances.

Sc. 4. Caste system, its merits and demerits.

We have seen above how important a part did caste system, play in organisation of primitive-villages. The population of a village was divided into a number of castes and it was the caste that determined the occupation of its members. Let us now discuss the merits of the caste-system.—

(1) The division of the whole population of a village into a number of castes—each having a distinct profession -enabled the primitive society to enjoy some of the advantages of division of labour.

(2) The caste-system was, roughly speaking, based on a sound principle. The son of a carpenter might possess by birth some talents which would enable him to prosper in the caste profession more easily than a person belonging to another caste.

(3) It afforded a great advantage for the training of persons in a particular profession. The children would come to know the secrets of the profession which they would have to adopt from their very infancy.

(4) The restriction of marriages under the caste-system was the cause of the growth of healthy population and of the high standard of morality in the three higher classes.

But the caste-system in spite of the merits mentioned above disappeared in course of time

on account of certain inherent defects. The defects can be briefly described as follows:—

(1) The caste-system which forced the members of a particular caste to adopt the profession prescribed for that caste was prejudicial to the economic development of a country; because such a restriction on the choice of occupation meant a waste of aptitude and energy.

(2) It checks the free mobility of labour which is necessary for the best utilisation of natural resources. If men belonging to one occupation is not allowed to move to another profession which demands an increase in the number of members the national dividend of the country will surely be less than what would have been the case in the absence of such restriction.

Caste system is unjust.

(3) The principle underlying the caste system is unjust and inequitable because it does not allow the members of a lower caste to enjoy the honour and dignity attached to the higher profession.

It does not give scope for originality and invention.

(4) The caste system which leaves the development of Indian industry to the care of illiterate and inferior classes does not give proper scope for originality and invention.

The modern system of production requires subdivision of labour and the crude form of division labour based upon an accident of birth is prejudicial to the economic development of India.

Want of mobility of labour

(5) The caste-system which absolutely fixes the supply of any kind of labour and does not allow the supply to respond to the demand for it is unsuited to the large-scale production. Hence modern system of organisation has based division of labour not upon the caste but upon efficiency of the workers. Again, in modern times there is freedom of occupation and men belonging to one caste can easily adopt the profession

of another caste. In this way the rigidity of the caste system has been considerably modified.

Sc. 4(a). The caste-guilds its functions.

Caste organisation its functions

In Ancient India there existed an institution almost similar to the guilds of mediaeval Europe. Each caste was also a trade-guild which used to encourage the efficiency of the members of the guild and had supreme control over them. Unlike the trade-guilds of mediaeval Europe the caste-guilds did not allow outsiders to be members of the guild. The caste-guilds used to play an important part in the economic organisation of the country. Their contributions to the national dividend could never be ignored. Such guilds are even now found in some parts of India but they have lost their former strength and cannot favourably be compared with the trade-unions of modern Europe.

Sc. 5. Economic transition of India.

We have already studied the primitive organisation and its defect. We shall now deal with the changes that have taken place in the organisation of industries in recent times.

A spirit of interdependence has taken the place of self-sufficiency.

(*i*) Self sufficiency of Indian villlages has disappeared altogether and a spirit of interdependence has taken its place. This change has been due to the facilities of communication. Now it is possible for one village to depend upon another for the supply of articles in the production of which the latter has comparative advantages. This fact of inter-dependence has led to the extension of market and to the localisation of industries.

The equalisation of prices is now possible.

(*ii*) The facilities of communication have brought about another change viz., the equalisation of prices. The same article is sold in different parts of India at the same price.

(*iii*) There is free mobility of labour from one

occupation to another and from one part of India to another. The caste prejudices that restricted the choice of occupation in Ancient India have been discarded and the profession of a person is determined not by the accident of birth but by the taste and talents that he possesses.

There is at present free mobility of labour.

(*iv*) Production is now carried on with the help of up-to-date machineries and there has been division of labour in almost every industry.

Upto-date method of production introduced.

(*v*) The standard of living of the general mass of the population is higher than what it was in ancient times. Even the peasants of India cannot do without some of the articles which could be enjoyed by the rich alone in former times.

There is a rise in the standard of living.

(*vi*) The barter system of exchange has given place to monetary system of exchange and people who get their income generally in terms of money can make the best profitable use of any and every farthing that they possess.

The barter system has been replaced by monetary system.

Sc. 6. The Joint-Family system.

This system is generally to be found among the Hindus of India. A group of persons may constitute a joint-family when they live together in the same building, enjoy equal rights and privileges and possess a joint property. The joint-family system has both advantages and disadvantages.

What is meant by joint family

(a) The most important of the economic advantages is that it makes cost of living cheaper. A family that contains twelve members can purchase the articles required for consumption in large quantities and therefore at cheaper price and has not to make separate arrangement for each particular member. The establishment charges in such families will not be twelve times higher than that incurred by a single person.

It cheapens, the cost of living.

(b) A division of labour among the members with all its advantages is possible only in a joint family. One member may look after the management, of the family property while others may get themselves employed and increase the total income of the family.

There is a sort of division of labour.

(c) There exists a bond of unity and strangers will think twice before attacking a person who is living with several others in a joint family. Thus a joint family makes the life and property of the members secure.

There is a bond of unity which brings security to life and property.

(d) There we find mutual help and sympathy. A member who is ill or disabled will not be quite helpless in as much as he with his wife and children will be supported by the other members. Again, it creates a very wholesome atmosphere and the children that will be born in the family will have no opportunity of becoming selfish and mean.

Mutual help and sympathy creates a very wholesome atmosphere.

(e) Equality of interest and disinterested motives to be found in a joint family bring domestic peace and happiness.

(f) The joint property of the family is enjoyed by all the members equally and can be managed easily and economically. The partition of family lands is avoided and production on a large scale becomes possible.

Fragmentation of land is avoided.

(ii) Disadvantages

(a) Since in a joint family one member can live comfortably without contributing a single pice to the family expenses, he will not try to exert himself much for earning his own bread. Again the very fact that the earnings of one member will be enjoyed equally by other who contribute nothing takes away from the able members the desire to make the best use of his ability. Thus a joint family is likely to encourage idleness among the members and discourages the growth of capital.

It encourages idleness.

(b) A joint family often gives opportunity to the selfish members to save everything that they earn while enjoying the fruits of labour of the unselfish members.

Gives opportunity to the selfish members to save everything that they earn.

(c) It sometimes brings family discomforts occasioned by the quarrel among the different members; often quarrel among the children creates a breach of peace in the family.

Brings about family discomforts.

(d, The joint family property the management of which is entrusted to a single member may not be managed efficiently because the income will be enjoyed not by the manager alone but by the other members as well.

Evils of management.

Sc. 7. Why the system of joint-family is ying out ?

In ancient society the unit was not the individual but the family. The members of the family had no seperate existence, their interests were merged in that of the family. They were not allowed to do whatever they liked but had to be guided by the direction of the head of the family. Gradually the ties of blood-relationship upon which the system of joint family was based slackened and individual came to be recognised as a member of the modern state.

Individual has taken the peace of society.

In modern state the unit is not the family but the individual. The law now recognises the rights of individuals as distinct from that of the family. The members of the family have been given the right to have their shares in the ancestral property determined and to alienate them according to their free will. This chage in the organisation of modern state has given a death-blow to the system of joint-family.

Rights of individual recognised.

Again the ideal of life of the people has changed. Formerly the ideal was one of simple living and high thinking but at present materia-

Change of ideals.

lism has created a new atmosphere in which individual is always seeking to improve his own economic and social position.

Another factor that has been responsible for the dissolution of joint-family is the facility of communication. This has destroyed the family industry by helping foreign commodities to usurp the Indian market. This decay of the family industry has brought about a dissolution among the members of the family. Again, the development of the means of communication has caused a mobility of a labour and the members of joint-family have been forced to leave their home in order to earn their livelihood in a distant country.

Sc. 8. Laws of inheritance.

Hindu and Mahomedan law of inheritance.

In India there is no uniform body of laws of inheritance applicable to any and every person irrespective of the community to which he belongs. The laws of inheritance differ according to the different communities to be found in India. The Hindus are governed by the Hindu laws which are mainly based on Sruti and Smriti. The Mahomedans again have there own laws of inheritance. The Christians are governed by the Indian Succession Act.

Pinda theory of succession.

In discussing the Hindu laws of inheritance we shall have to deal with the two schools of law *viz.*—the Dayabhag and the Mitakshara. According to the Dayabhag school of Hindu law the right of the sons to the property of the deceased father accrues after the death of the father while according to the Mitakshara school the right accrues from the time of birth, and on the death of a member the joint property passes to the other members by survivorship. The inheritance under the Dayabhag law in based upon the *pinda* theory and the nearest *sapinda* is

always preferred to a more distant *sapinda*. Except in the case of *stridhan* properties the female heirs have always a limited interest and the property passes on their death to the next reversioners.

The Mahomedan law of inheritance governs the Mahomedans. In this law too we find two different schools—(i) The Hanafi school (ii) the Shiah school. The former is applicable to the Sunni Mahomedans whereas the latter governs the Shiah Mahomedans.

Heirs under the Mahomedan law.

The Mahomedan Law recognises a large body of heirs both male and female. Unlike Hindu Law this law allots a distinct share to the sons, daughters, parents, husband or wife. This law of inheritance has led to fragmentation of the land left by the deceased.

Besides the above two laws governing the two principal communities of India there is the Indian Succession Act laying down a body of rules regarding the intestate succession of persons who are governed neither by the Hindu Law nor by the Mahomedan Law of Succession.

Sc. 9. People and their occupation.

Agriculture is the main occupation.

People of India depend mainly upon agriculture for their subsistence. The cultivators sometimes cultivate the land after taking settlement direct from the landlord but often we find that they have no permanent right in the soil but cultivate land under a temporary settlement from the intermediate tenure holders. In the latter case they have generally to pay higher rent. In years of scarcity the agriculturists have to sell almost the whole of their crops in paying rent to the landlord. The agriculturists again have no capital of their own and in consequence during rainy season they have to borrow money at a high rate of interest from the village money-

lenders. Agriculturist cannot make the best use of the land they possess because they are in want of adequate funds and their illiteracy and conservatism do not favour the growth of co-operation.

Industries give employment to a few persons.

Besides agriculture there are several industries which give occupation to the inhabitants of India; but the number of people that is engaged in industries does not exceed 12 per cent of the total population. The great majority of this industrial population are engaged in unorganised industries connected with the supply of personal and household necessities and the simple implements of work. The number of industrial workers is rapidly increasing. We should note one outstanding fact that the supply of workers in the organised industries is not the same throughout the year. The Indian factory hand is generally a migratory individual who gets himself employed only when there is no work in the field and who never intends to stick to his job. This is the reason why the factory hands are generally inefficient.

Nature of articles turned out

The handicrafts which are found to give employment to a certain percentage of the population generally turn out commodities to meet local demand for them. These industries are generally carried on a small scale with antiquated appliances. They are losing their importance on account of the importation of cheap manufactured articles. These industries can only survive if the co-operative principle is adopted by the workers

Questions and Answers.

1. Characterize briefly the economic transition in India.—(C. U. 1912.)

Ans. *See*—Sec. 5.

2. Examine briefly the institutions of joint family and caste, discuss fully their economic effect.—(C. U. 1920).

Ans. *See* —Secs. 4, 6.

3. What are the economic effects of law of succession prevalent in India.—(C. U. 1924).

Ans. *See*—Sec. 7.

Hints--The equitable distribution among children—encourages idleness—brings about family discords—stimulates spirit of litigation—causes fragmentation of lands—large scale production becomes impossible—incidental expenses of fencing.

4. What are the effects of development of communications on the internal economy of villages.—(C. U. 1928).

Ans. *See*—Sec. 5.

5. Discuss the nature of the joint family in India, and explain its economic significance. What are the factors that tend to break it up in modern times ? C. U. 1930.

Ans. *See* Secs. 6 & 7.

6. Discuss the economic effects of the joint family and caste system in India. Would you advocate the abolition of these systems ? Give reasons for your answers. C. U. 1931.

Ans. *See* Secs. 4 & 6.

7. What is the origin of the caste system ? Discuss how far it is unsuited to the structure of modern society and show how under the stress of modern economic conditions, the rigidity of the old caste-system has been considerably modified. C. U. 1929.

Ans. *See* Sec. (3a) & Sec. 4.

CHAPTER VI.

PRODUCTION.

Sc. 1. What is production ? Why production is necessary ?

Now what is production? In the science of Economics it means creation of utilities. Man cannot create matters but he can create utility out of matters supplied by nature.

Production plays a very important part. It gives rise to national divident which measures the economic prosperity of a country.

Production plays a very important part in the economic development of a country. It constitutes the National Dividend which is the outcome of contribution made by all the agents of production and is at the same time sole source of payment for each of them. The prosperity of a country is measured by the National Dividend and therefore by the scale of production. A country is rich or poor according as production can or cannot keep pace with the increasing population.

The inefficient method of production is the root cause of India's poverty.

Inspite of the facilities afforded by nature proverty of India is an undisputed fact. This poverty has been due to various factors of which the lethargy of the people, defective organisation of industry and the inefficient method of production are important. Of course we are in no way justified in saying that method of distribution has no effect on the economic conditions of the Indians, still the influence of this factor is greater in other countries than in India Loveday in his "History and Economics of Indian Famines" says "poverty of England or America or Germany is a question of distribution of wealth. In India it is a question of production."

Sc. 2. The agents of production and their nature.

Production cannot be carried on except with the assistance of these four agents viz. land, labour, capital and organisation. We shall discuss in this chapter the nature and character of each of these four agents of production.

The four agents of production.

(i) The term 'land' is used in Economic Science to mean resources of nature. It includes not only agricultural and building lands but also other natural resources such as mines and water courses.

Meaning of the term 'Land'

We shall for the time being concentrate our attention to the study of the nature of agricultural land. India being an agricultural country the quantity and quality of the land available for cultivation must be studied first of all. With regard to the supply of land available for cultivation we can say that the supply can be increased to some extent. In fact the areas under cultivation are going on increasing. There are still certain fallow lands and certain cultivable wastes to which cultivation can be extended. The amount of such lands which is available for cultivation is not less than 170 million acres.

The nature of the supply of land; how far cultivation may be extended.

Next we turn to inquire into the quality of the land. By the quality of the land we mean its fertility. The fertility of the land is a relative term. The land which is now infertile may be turned into a fertile one if sufficient amount of capital has been invested in it; but we should remember in this connection that it is the artificial properties of the soil that are amenable to improvement by

The quality of the land which generally means fertility is a relative term The natural and artificial properties of the land.

chemical processes but there are other natural properties which cannot be improved by human beings. As a result of the loss of natural properties the Law of Diminishing Return is operating in agriculture.

Again the Indian peasants, poor as they are, are not in a position to improve the artifical properties of the soil by the application of manures. The intensive cultivation is almost absent in India. All these facts have been responsible for the insufficient returns from the Indian soil.

Sc. 3. The condition of the supply of labour.

wo methods of increasing the supply of labour.

In the previous section we have dealt with the nature of the supply of land and in the present section we shall consider the nature of the supply of another important agent viz. labour. The supply of labour can be increased in two ways—(1) by increasing the number of labourers and (2) by improving their efficiency. The former method is intimately connected with the growth of population and has been expressly denounced by Malthus on the ground that it will utimately lead to misery, famine, war and pestilence. Although the Malthusian doctrines of population has been restricted in its operation in these days of efficient production and international trade yet it still holds good in countries like India where the efficiency in production cannot keep pace with the increasing population.

ow Maltheusian doctrine holds good in India.

How to determine the growth of population.

The growth of population is to be studied with reference to the birth rate and the death rate of the country in question. The net growth is given by the excess of birth over death. Taking into consideration both these factors we cannot say that the net increase in population in India is larger than that in European

countries. Though on account of the system of early marriage which is prevalent here in India the number of children born is larger in India than in the western countries we are not right if we say that all the newly born children go to increase the existing stock of population. We are to take into account the death rate which is also higher in India than in the western countries and are to deduct the death rate from the birth rate. When such deduction has been made from the birth rate of India what remains is the net increase to the stock of population. The net increase per 1000 of population is only 5 in India while it is 10 in England, but the two countries are not equally prosperous and the result is that England can maintain the increased population easily while in India the net increase in population, however small has the effect of lowering the standard of living.

Both the birth rate and the death rate are higher in India.

Sc. 4. Causes of high-birth rate.

It is an undisputable fact that the birth rate is higher in India than in the western countries. Now what are the causes of this difference in birth rate? We can attribute thfs difference in birth rate to a number of causes. The most important of these causes is the climatic condition. In a country like India where there is warm climate puberty is attained at a comparatively early age. The attainment of puberty at an earlier age coupled with the religious belief of the Hindus that the daughter should be married before the attainment of the age of puberty has been responsible for the early mariage here in India. Again the low-standard of living, the less expense of bringing up children and the unselfishness of parents have been other causes of early marriage in India. The high birth-rate in India is due to this custom of early marriage. Again, biology tells us that

(1) The warm climate is the cause of early attainment of puberty,

(2) The religious belief of the Hindus is in favour of early marriage,

(3) The low standard of living is another cause of early marriage.

poverty and fecundity go together; birth rate is, therefore, higher among the poorer section of the community.

Sc. 5 Causes of high death-rate.

We have seen above that though the birth rate is higher in India than in western countries the net increase in population is smaller. The reason is that the high birth-rate is accompanied with a high death rate. There are several important causes of this high death-rate.

(1) The consummation of marriages when the married couple are very young leads to the premature birth of some children who die shortly after their birth.

The early marriage is responsible for the mortality of the young mothers and of their children.

(2) The early marriage is responsible for the death of females at the reproductive age. Often we find that females suffer from various diseases and they are in a dying condition after they have given birth to a dozen of children.

(3) The insanitary condition of living and want of proper nourishment are other causes of the high death-rate in India.

(4) In India we find that mothers are ignorant of the method of nursing. The mothers are often engaged in their domestic works and cannot find enough time to look after their children.

Effect of famine.

(5) Famine is another cause of the high death-rate of India. Famines occur more frequently because agriculture which is the principal industry in India has to depend more or less upon heaven for the supply of water.

Sc. 6. The growth of population and its evils.

Inspite of the slow growth of population India is suffering a great deal on account

of over-population. The Malthusian doctrine of population which does not apply to countries which have improved their efficiency in the sphere of industry has its operation here in India. The population is going on increasing but the efficiency of production is not being improved to keep pace with this increasing population. The result is that every net increase in population has the effect of increasing the pressure of population on land. The people of India must be fed out of the food-stuffs produced from the Indian soil. This pressure of population on land has already led to the operation of the Law of Diminishing Return. Moreover this situation has been aggravated by an increase in the export of food-stuffs from this country. The prices of food-stuffs have increased considerably but the income of the people has not risen proportionately. Again, an increased supply of unskilled labour has complicated the problem of unemployment and the reduction of wages has been the consequence.

India suffers greatly from over population.

In the absence of industrial development every net increase in population means an increasing pressure upon land.

Sc. 7 Suggested remedies.

Several remedies have been suggested to remove the miseries due to over-population. These may be briefly stated thus—(1) The population should be distributed equally in all the parts of India. (2) Cultivation may be extended to cultivable waste lands. (3) Irrigation may increase the food-stuff to a considerable extent. (4) Emigration of population to other parts of India. (5) The introduction of up-to-date methods of production. (6) Industrialisation of India.

Remedies that have been suggested for overcoming the misery due to over population.

With regard to the first remedy we can say that equal distribution of population in all the parts of India is not possible nor will such distribution remove the miseries due to over-population. Each part of India is not equally prosperous to feed an equal number of mouths. Again, the

movement of labourers from one part of the country to another takes place very rarely. Although such mobility of labour has been facilitated by the present system of communication the conservative habits of the people and the want of enterprise have made movement of population almost impossible.

Want of mobility.

The second remedy, *viz.* the extension of cultivation, may improve the condition of the people but considering the vast population of India this remedy will not be of practical importance.

With regard to the third remedy *viz.* the improvement of irrigation system of India, the Irrigation commission has opined that there are parts of India where "the utmost use of every available means of irrigation will fail to afford complete protection against the failure of rainfall."

The fourth remedy *viz.* the emigration of population to other parts of the world might have some importance in ancient time but in view of the present state of things and the humiliation to which the emigrants of India to foreign countries have been subject it is advisable that this remedy should not be taken recourse to. The Emigration Act of 1922 has permitted emigration only to Ceylon, the Straits Settlements and on a small scale to Mauritius. The actual number of Indians at present settled abroad is about 2,610,000. Ceylon alone gives shelter to about 33 per cent. of the total number of emigrants.

The fifth remedy is important in as much as it will lead to an increase in quantitative production. India can improve its economic condition in a great measure by adopting the up-to-date methods of production.

The sixth and the last remedy suggested in

this connection is industrialisation. The misery of India is mainly due to the fact that 90% of the population depend absolutely upon agriculture for maintenance. Every increase in population means an increased pressure upon the means of subsistence. If the people can improve their efficiency both in agriculture and in manufacture the increase in population will cease to be a danger to the material prosperity of the country.

The industrialisation of India is the proper remedy

Sc. 8. The nature of the supply of industrial labour.

Though the supply of unskilled labourers in India is very large India suffers greatly for want of efficient labourers. This diminution in the supply of efficient labourers is a great obstacle to the industrial development of India. The Industrial Commission has attributed the inefficiency of the Indian labourers to the following causes—(1) absence of education amongst Indian artisans, (2) their low standard of living, (3) Their poor health, (4) migratory character, (5) their heterogeneity.

The cause of the inefficiency of Indian labourers.

In India there is scarcely any sharp line of demarcation between agricultural labourer and industrial operatives. Here we do not find an urban proletariat. The supply of industrial labour is great when the agriculturists have no work to do in the fields. These agriculturists come to the towns and get themselves employed in some factory till the approach of rainy season. The period of service is too short to enable the industrial labourers to acquire efficiency in their work.

Characteristics of industrial labour.

Again, this migratory character prevents industrial labourers from developing a sense of responsibility and thereby seriously hampers the progress of the industries. The labourers do not want to establish themselves in the towns

Their migratory.

and always look forword for a time when he will be able to return home with some money. Their object is to acquire some wealth and not to improve their efficiency by means of organisation among themselves.

Again, the industrial labourers are bewilderingly heterogeneous. In an Indian factory the labourers are often drawn from various parts of the country and the result is that they differ profoundly in race and caste and creed, but inspite of this difference they have to yield to the unformity of factory laws and have to spend their hours with associates whose conversation they cannot understand. This heterogeneity has always stood on the way of there being an organisation of labourers. True it is that there are trade unions but the leaders have comparatively little hold over the uneducated and migratory labourers who differ in race and religion.

(ii) Their illiteracy.

In India the labourers are illiterate and as such are not in a position to benefit themselves by the industrial knowledge which the Government of India has according to the recommendation of the Industrial Commission undertaken to spread. The mere spread of industrial knowledge will be of no effect if adequate arrangement is not made for the primary education of the mass of the population. Again, the Government should increase the number of technical schools and colleges so that the people of India can easily obtain training in various industries.

The duty cast upon the Govt. in this connecion.

The low standard of living has its effect upon the health and strength of the population.

The low standard of living is also a very important cause of the inefficiency of Indian labourers. The standard of living has important effect upon the health and strength of the population. The Indian labourers cannot afford to consume sufficient quantity of food and to live in wholesome dwellings. In consequence

they are generally weak and incapable of undergoing strenuous exertions. The **Industrial commission** has recommended for the better housing, free medical help of the artisans but the Government of India has not yet made adequate provisions for giving effect to this recommendation.

In efficiency of the Indian labourers cannot be fully explained with reference to their productivity. Sometimes we compare the productive capacity of an English labourer in a Lancashire mill with that an Indian labourer in the Bombay mill and come to a finding that the former is four times as efficient as the latter. Such a comparision cannot represent the true state of things because the conditions of work are not similar. The smaller output of the Indian mill is not due to the inefficiency of labour alone. The mills generally use bad rawmaterials and do not carry on production with upto-date appliances. The wages are lower and the cost of machinery is higher; for this reason the managers think it profitable to employ more hands and to invest comparatively small amount of capital in labour-saving appliances.

The system of recruitment of industrial labourers has certain effect upon the efficiency of the industrial labourers. In industrial towns we find the practice of employing workmen through foremen and sardars. These people generally try to exert commission from the employees who have to enter into a contract with these jobbers for payment of such commission before they can get themselves employed in a factory. This system of employing labourers increases the difficulties of securing efficient workers.

The method of payment of wages.

The misery of the industrial labourers has also been caused by the method of payment of wages. In some industrial towns the wages are

paid on the fifteenth of the month following the *one for which wages are earned. The result is* that a new employee has to borrow money from the Sardars in order to meet his expenses for one month and a half. The Sardars realise both the principal and interest from the monthly wages. The labourers cannot meet his expenses with the few coins that are handed over to him and is forced to approach the Sardars for a fresh loan. The labourers thus fail to clear up their debts and are forced to lead a life of misery.

Another factor that adds to the misery of the industrial labourers is the system of fines which are imposed upon the operatives for bad workmanship and loss of materials or damage of machineries.

Sc. 8 (a). How to improve the condition of industrial labour ?

The causes of inefficiency

Indian industries suffer greatly on account of want of adequate supply of efficient labour. The supply of labour may be increased either by increasing the number or by improving the efficiency of the labourers; at present the industrial labourers are but migratory individuals who get themselves employed in factories only for a short period of time. The labourers do not like to get themselves employed permanently in factories because factory life has little or no attraction. The factory workers have to live in the congested tenement houses of the industrial quarter. They are to work hard but their inefficiency brings them wages which cannot purchase sufficient food for their nourishment. They cannot afford to live with their wives because their humble income cannot help them in hiring a room. The insanitary houses in which they are forced to live and their low standard of living tell upon their health and strength.

Various ways of improving the condition of labourers.

Attempt must be made to remove the miseries of factory life by making adequate provision for free medical service, proper sanitary arrangement, bathing facilities, schools for scientific training, workmen's insurance and labour exchanges. When these things have been done the fate of industrial labour will be improved and factories will attract men who will stick to their job.

Need of elementary education.

The spread of elementary education among the industrial workers is urgently necessary. Education will help them in understanding their rights and responsibilities and improve their general ability. They will realise what united efforts can do for them and in this way trade unions will be formed which will exact from the employers higher wages. After elementary education has been imparted to the workers they should get practical training in factories or in other industrial firms. The technical schools should have therefore intimate connection with workshop where students can get practical training. The technical schools should be under the control of industrial experts who have up-to-date information regarding the industry.

Co-operative organisation among workers.

The growth of the spirit of co-operation among the independent workers will enable them to purchase raw materials in large quantities and to carry on production with up-to-date appliances which they can easily purchase with joint funds. In this way efficiency of the independent workers will increase.

Steps are being taken by the managers of factories to abolish the system of recruitment of labourers through jobbers and overseers. The methods of payment of wages and realisation of fines have engaged the attention of the Government and if measures are taken to re-

move those evil practices the condition of the labourers will surely improve. Care should also be taken to provide the labourers with the best kinds of appliances and the best materials.

In India the labourers are generally illiterate. They have little or no reserve fund. This is the reason why they cannot compel the employers to pay wages which they deserve. They are to work hard but they are paid very low wages. They are quite helpless victims at the hand of the employers. The illiteracy of the labourers has been responsible for the slow growth of Trade-union organisation. Under these circumstances the Government cannot but intervene and make laws regulating the employment of labourers. Accordingly we find the Government of India has passed a large number of wisely framed and effective measures, such as the Factories Acts of 1881, 1891, 1911, 1922, and 1926, the Mines Act of 1901 and 1923, **the workmen's Compensation Act** of 1923. The Trade-Unions Act of 1926, The Trade Disputes Act of 1929. The condition of the labourers has no doubt been improved by these legislative measures but there is as yet a great deal to be done before the industrial labourers of India can be favourably compared with similar labourers of the more advanced countries.

Government measure.

The Government of India appreciated the importance of efficient labour and appointed in 1929 a Commission known as the Whitley Commission on Indian Labour 'to inquire into and report on the existing conditions of labour in industrial undertakings and plantations in British India, on the health, efficiancy and standard of living of the workers, and on the relation between employers and employed and to make recommendation'. The Commission has finished enquiry and recently submitted its report.

Sc. 9. Factory Legislation in India.

The necessity of factory legislation to safe-guard the interest of women and children.

As in other countries so also in India the necessity of factory legislation has been keenly felt to check the employment of children and women. If there is no law to regulate the employment of children and women the economic prosperity which is intimately connected with the health and strength of the population is surely to be at stake. The employment of children who are too young to bear the strain of factory work will undoubtedly undermine their efficiency and bring about their premature death. The employment of women without any regulation as to the time and hours of work will bring moral degeneration and militate against their maternal instincts. Moreover, the regulation of the hours of work is necessary, not only in the case of children and women but also in the case of adult persons. The restriction on the hours of labour is sure to improve the efficiency of the labourers. In India the factory legislation has been mainly due to the efforts of the Government. Several Acts have been passed in India with a view to regulate the hours of work and condition of employment. Let us have a brief account of the provisions of these acts.

The restriction on the hours of labour has the effect of improving the efficiency of the labourers.

The factory act of 1881 and 1891.

The first factory act was passed in 1881. The provisions of this act were amended by the act of 1891 which regulated the conditions of employment till 1911. The act of 1891 included within the term factory any premises in which mechanical power had been used for not less than four months and which employed not less than 50 labourers. This act empowered the Local Government to alter the above definition of factory and to appoint surgeons for certifying the age of children and inspectors to supervise the work of factories. The hours of labour were reduced to 11 hours with intervals of rest

amounting to at least an hour and a half. The employment of women between 8 P.M. and 5 A.M. was prohibited. The children who were below the age of 14 years could not be employed during the night time and the hours of work were limited to 7. The children who were below the age of 9 years could not be employed. The act also provided for the adequate fencing of dangerous machinery.

The Act of 1911. This act was repealed by the act of 1911 which was passed mainly with a view to check the abuses of cotton mills; the act of 1911 altered the definition of Factory so as to include within it factories other than those already included. It imposed for the first time special restriction on the employment of adult labourers in any textile factories. The hours of labour for such labourers were limited to 12 every day. This act also restricted the hours for which children and women could be employed.

The Act of 1922. Then came the act of 1922 which revised the whole law on the subject. It raised the minimum age of children to 12 years, limited the hours of work to 60 hours per week and prohibited night-work for women. The Act provided for a rest period of one hour after every six hours and improved the system of inspection by the appointment of whole time inspectors. Another act which has been passed with a view to ameliorate the miseries of the labourers is the **Workmen's compensation Act.** This act confers upon the labourers other than agricultural labourers and domestic servants a right to compensation in all cases of personal injury by accident and in cases of certain industrial diseases.

Workmen's compensation Act.

The Factories Act of 1922 was amended by the Act of 1923 and the Act of 1926. The Act of 1923 removed certain defects concerning weekly holidays. The Act of 1926 provided for the reduction of the rest intervals to half an hour.

Certain other amendments were introduced on the recommendations of the Chief Inspectors of factories.

Sc. 10. Nature of industrial training.

In ancient India when caste-system was prevalent people blonging to one caste could easily train themselves in their caste profession. Such a system of industrial training was defective in as much as the apprentices had only practical training and nothing which would develop their general ability. The modern method of industrial training aims at not only imparting practical knowledge regarding some particular industry but also developing the general ability of the apprentices. Mere practical training might be useful so far as the employment in that particular industry is concerned but it will fail to bring the apprentice any permanent benefit.

The primitive system of training was defective because it was merely practical.

In India the modern system of industrial training is almost unknown. This has been due to the indifference of the Government of India and the contemptuous attitude of the rich towards the labourers. The Industrial Commission had cast upon the Government the duty of making suitable arrangement for the universal primary education and after this has been done the next step that the Government should take will be to improve the technical education by making provision both for industrial schools where the cottage industrialists may get their training and for a system of organised apprenticeship for four or five years so that those wishing to join organised industries may get both practical and theoretical training during the term of such apprenticeship.

The modern system of industrial training is almost unknown in India.

Sc. 11. Nature of the supply of capital.

Capital is needed both in agriculture and in manufacture. The capital required for agricul-

Inatequate supply of capital.

tural purposes is mainly supplied by the money-lenders at an exorbitant rate of interest; the co-operative credit societies have done a great deal in the matter of supply of agricultural capital at a considerably lower rate of interest; but the supply of capital for agricultural purposes is insufficient and the result is the cultivators cannot cultivate land intensively with the aid of up-to-date appliances.

Co-operative organisation can help much.

The supply of capital which is required for cottage industries and independent firms comes partly from the village money lenders and partly from the enterprisers themselves. Co-operative credit societies has done something to increase the supply of capital but there is as yet much to be done in order that the supply may be adequate. The big firms and industries which require the investment of large amount of capital are mainly financed by foreign capitalists.

India's stock of capital is very small.

India being a poor country the supply of capital is very small. Again, whatever small capital the Indians might possess they are too shy to invest it in profitable enterprises. These two causes have been responsible for india's backwardness both in agriculture and manufacture. The shyness of the Indian capitalists is mainly due to their illiteracy and cannot be removed unless adequate arrangement has been made for the intellectual development of the country. Again, the want of adequate security against which money may be safely advanced has been responsible for the shyness of Indian capitalists. Often Indian money lenders have to lend money to persons who can furnish no security and thus there is the risk of non-realisation. In recent times the banking organisations, the Savings Bank Department and the Co-operative Credit Societies have removed the shyness to some extent and the Indians are often found to deposit their savings with these

Savings Bank Department and co-operative credit societi s.

institutions which in their turn invest them in profitable enterprises, but deposit banking is still in its infancy in India. The number of joint stock banks is increasing day by day but the part they play in the development of industry is not very important because these joint stock banks cannot afford to lend money for a long period of time. These joint stock banks are mainly financed by foreign capitalists and the supply of money depends greatly upon the foreign money market.

Want of banking facility.

Sc. 12. The supply of Foreign Capital—its advantages and disadvantages.

Two-important advantages follow from the importation of foreign capital.

The little stock of capital that India possesses is not sufficient for the proper utilisation of her resources; and the utilisation of the resources is urgently necessary for the economic development of the country. Under these circumstances India has no other alternative but to import foreign capital. Such an importation of foreign capital accompanied with foreign enterprise has been made with a view to open many important industries that we find at the present time. The mining industries, the textile industries, and the plantation like tea, coffee and chincona could not attain such development without the aid of foreign capital and enterprise. Again the importation of foreign capital has some educative influence. The foreign enterprisers are investing their capital in risky enterprises and thereby giving the Indians a chance of knowing how to take risks boldly. There are certain risks incidental to every industrial undertaking and unless the Indians are taught how to take such risk the Indian capitalists will remain shy for all time to come.

(1) Utilisation of the Indian resources.

(2) Educating the Indians in the matter of risk taking.

But the importation of foreign capital saddled with foreign enterprise has not been an unmixed blessing. The foreign enterprisers are investing

Evils of the importation of foreign capital saddled with foreign enterprise.

(i) exploitation of India's

(ii) hampers political progress.

(iii) the educative influence is not recognised by the Indian opinions.

their capital and taking away the profits derived from Indian industries. The only benefit that India derives is in the shape of wages to the labourers. The result is that Indian resources are being exploited by the foreign capitalists. Though the utilization of natural resources is intimately connected with the economic prosperity of India such an utilization which means exploitation is not conducive to the interest of India. It is the foreigners that are getting the lion's share of the benefits derived from such utilisation of India's resources. Again, it has been urged that the investment of foreign capital by the foreign enterprisers strengthens their hold in the country and thereby hampers the political progress of India. The Indian opinion also attaches less importance to the educative influence of importation of foreign capital and enterprise because the foreign enteprisers do not often allow the Indians to occupy responsible and important posts in the industries.

Sc. 13. The suggested remedies.

Indian opinion protests the importation not of foreign capital but of foreign enterprise.

It is to the interest of India that Indian resources should not be allowed to be exploited by foreign capitalists. There has been enough of such exploitation and if it is allowed to go on in this way a time will soon come when all the Indian resources will be exhausted. Under these circumstances it is the duty of the Government to regulate the investment of foreign capital. India has no objection if foreign capital alone is imported but what Indian opinion protests is the importation of foreign enterprise. If the Indians borrow foreign capital and invest them in enterprise the foreign capitalists will get only interest on the capital borrowed and will get no share of the profits. In that case the question of exploitation can

not arise at all. But the Indians are not in a position to take the whole risk upon their shoulders. The best remedy therefore under the present circumstances will be to increase the participation of the Indians in industries. Several suggestions have been made in this connection. Let us have a brief account of all these suggestions.—

(i) That Indians should be given fair chance of becoming share-holders in industries floated by foreign capitalists.

(ii) That Government should discourage the investment of foreign capital saddled with foreign enterprise by refusing to grant mining licenses and leases to the foreign enterprisers.

(iii) That the Government should cease to register any company that does not possess a certain proportion of Indian capital.

(iv) That the Indian shareholders should enjoy the right of returning their own directors in proportion to their number.

(v) That non-Indian jointstock companies should be allowed to be floated only with rupee capital.

Criticism of the suggestions by the Fiscal Committee as well as by the External Capital Committee.

The Fiscal Commission as well as the External Capital Committee have criticised some of the above suggestions as unjust and inequitable. The reservation of a certain number shares for the Indian shareholders would lead to the fall in the prices of such shares and may sometimes be prejudicial to the interest of the industries.

With regard to the fifth suggestion the commissioners argued that such a restriction would generally be evaded by the floatation of private companies but the Fiscal Commission was kind enough to recommend that Govern-

ment monopolies and concession should not be granted to companies other than those incorporated with rupee capital in India and having Indian directors and affording facilities for the training of Indian apprentices.

Sc. 14. How foreign capital enters into India.

Foreign capital enters into India in three important ways.

Foreign capital enters into India in three important ways. First, it enters into India in the shape of loans made to the Indians or to the Indian Government at a certain rate of interest. The foreign capitalists in this case get only the stipulated amount of interest and nothing more. They do not take the risk of conducting the industries and as such are not entitled to claim the profits derived from them. The Indians have no objection to this sort of investment. Such investment on the other hand, will render a great service to India by removing the stringency of the money market.

(i) in the shape of loans to India at a certain rate of interest.

Secondly, foreign capital comes to India in the shape of investment made by foreign enterprisers in Indian industries in order to compete with Indian industrialists. The investment of such foreign capital brings about a keen competition between the Indians and the foreign capitatists with this result that the consumers can get commodities at a cheap competitive price. But some restriction should be imposed on such investment because otherwise the foreigners would exploit the resources of India.

(ii) In the shape of investment made by foreigners in Indian industries in order to compete with the Indians in more industries.

Thirdly, there are investments in which foreign capitalists enjoy certain privileges or concession of land or other natural resources. In granting such concessions the Government should take care not to jeopardise the interest of India for the benefit of foreigners. Even if the interest of India demands such grant it should be made subject to the condition that the Indians should have some share in such enterprise and some voice in its management.

(iii) in the shape of investments in which the foreigners have certain privileges.

Sc. 15. Hoarded wealth of India.

India has been described as a sink of precious metals.

India has been called a "sink of precious metals." Such a view has been entertained by foreigners who have generally overestimated the amount of hoarded wealth of India. It is useless to refer to the estimates made by each of these foreign writers. We will do well to refer to the estimates of some of these writers e. g.—Henry Macleod, Earnest Cable and others who are of opinion that the hoarded wealth of India must not be less than £550 millions.

The Indian opinion holds the opposite view.

The Indian opinion which is represented by that of Sir Vithaldas Thakersey holds the opposite view. The amount of hoarded wealth according to his opinion cannot but be very small. India cannot contain much of hoarded wealth because hoarding is possible only when the income of the people leaves a surplus after the expenses have been met. Taking into consideration the average income of the people of India we find that it is not possible for the poor Indians to hoard precious metals in large quantities.

The reason why the allegation cannot be true.

Of course we cannot deny the fact the some amount of hoarding takes place in the shape of ornaments, but when we go to compare this hoarding with that of other countries and consider at the same time the vast population of India we can at once say that even this form of hoarding is less in India than in other civilised countries.

Again, even if we assume that hoarding propensity in much more predominant here in India than in any other country we cannot with justice accuse the Indians because such habit has been mainly due to the defective systems of banking and currency of the country.

The recent development of co-operative organisation and banking institutions has taken

Habit of investment among the middle-class people.

away the hoarding propensity and led to the investment of the surplus wealth of the Indians. The middle-class people are generally found to open an account in the post-office savings banks and deposit their savings in order to earn an interest.

Sc. 16. Nature of industrial organisation.

The part organisation in production.

Organisation plays a very important part in the production of National Dividend. It is one of the agents of production and determines how the three other agents should co-operate with one another in the matter of production. An industry cannot go on smoothly unless there is an efficient organiser or a body of organisers who will determine how to carry on the production in the best possible way. In the case of *enterprenure system* where the sole risk is taken by a single person it is that single individual who organises the production. It is he who hires land and labour to carry on production with their help. Again, the profit that can be derived from an industry depends greatly upon the nature and character of organisation.

Different social and economic conditions necessitates different kinds of organisation.

The industrial organisation of a country is greatly influenced by its social and economic conditions. Countries having different social ideals and economic position cannot profitably introduce the same form of organisation. Thus factory system cannot be profitably introduced here in India because social ideals will not allow the employment of women in such factories. Again an organisation which is suited to primitive condition may not be adopted with profit by the present society. The primitive villages which were self-sufficient units could not carry on production on a large scale but at the present time large-scale production can be carried on with profit because of the extension of market occasioned by the facilities of communication.

Attempt has sometimes been made to organise some cottage industries on co-operative basis. Co-operation among industrialists can help them in the matter of purchase of raw materials and sale of finished products. Again, upto-date machineries can be purchased with joint funds and production may be carried on with the help of such machineries. Such co-operative organisation has manifested itself in the cotton and silk industries. Bagerhat co-operative weaving union shows clearly what co-operation can do in the sphere of industry. In India co-operative organisation has not made considerable progress.

What co-operation can do.

In self-sufficient villages of primitive India the industries were generally carried on in cottages with the assistance of female members. Even at the recent time we find some minor cottage industries in India but this cottage system is gradually being replaced by workshop system on account of the opportunities that the latter system gives for carrying on production on a large scale.

Sc. 17. The Cottage industries--its advantages.

The system of Cottage industry is pre-eminently suited to the economic and social condition of India; but in recent times we find that cottage industries are dying out because of the competition of cheap foreign goods. Attempts should however be made to revive these industries and such a revival will go to improve the economic conditions of India.. Let us now consider the advantages of cottage industry:—

The cottage industry is suitable to the economic and social condition of India.

(1) It offers opportunity for the employment of female members. The social condition and the moral sentiment of the Indians will not allow the female members to work in factories but if industries are carried on in cottages

It makes the best use of women labour.

the female members will not remain idle but work with male members with the result that more articles will be produced. The female members will earn their own bread and cease to be absolutely dependent upon their husbands for maintenance.

It serves as a bye-occupation to the agriculturists.

(2) The cottage industries will serve as by occupation to the agriculturists. Every Indian generally speaking has plots of land to cultivate; but the cultivation of land does not absorb his whole time. There are parts of the year when he has no work in the field to do and during such time, he can profitably engage himself in industries. The economic position of the Indians will be greatly inproved if they do not solely depend upon agriculture for their subsistence. They must have supplementary source of income and the revival of the cottage industries will provide them with such source of income.

It creates a moral atmosphere.

(3) The next important advantage is the moral atmosphere that cottage industries create. The organisation of production in factories necessitates a concentration of workmen in factories and occasions a separation from the female members of the family. The workmen have to live amidst temptations of the city where the factory is situated with the result that their moral character often becomes degenerated.

(4) The mechanical inventions which involve the use of electricity have made it possible for the small producers

to derive some of the economics of large scale production. The advantages of marketing also can be secured by means of co-operative organisation among the small producers. Several cottage industrialists should form a co-operative society and purchase the the raw materials that they require in large quantities and therefore in a comparatively cheap price. By means of co-operative organisation they will be in a position to purchase a costly machinery on joint account and use it by turns. In this way the cottage industrialists can withstand the competition of the largescale manufacturer.

How modern inventions and modern form of co-operative organisation help the revival of cottage industries.

Sc. 18. Different kinds of cottage industries.

Though the primitive system of cottage industry is in recent times giving place to the workshop system it will be erroneous to hold that cottage industry has disappeared altogether. There are some cottage industries which still survive; of these industries the hand-loom weaving industry is the most important. Though this industry cannot turn out goods as cheaply as can be done by the mills till the industry survives on account of the fact that it can respond to the needs of the community by producing articles of specialised kind. Again the Khadi Movement has given a stimulus to the spinning industry. There are some other cottage industries e. g. the silk industry and the match-industry.

The industries that still survive.

The swadeshi movement of the present day has brought about a change in the attitude of the people. The Indians prefer indigenous articles to foreign goods even though the price of the latter is lower than that of the former. Another important cause of the survival of the cottage

Swadeshi movement: its effect.

Lower cost of production.

industries is that the industrialists have not generally to pay wages to hired labourers but they carry on production with the help of female members of the family who would otherwise have remained idle. Again, when hired labourers are employed their services are available at a very cheap rate when there is no work in the field to do.

Advantage in small-scale production.

The cottage industries have advantage in the production of those articles the demand for which is very small. The factories cannot take up the production of such commodities. Use of up-to-date machineries is another cause of the survival of cottage industries. Lastly, goods turned out by the cottage industrialists are more durable and artistic than those produced in factories.

Sc. 19. How the cottage industries can be revived ?

Co-operative organisation may enable the small scale producers to reap some of the advantages of a large scale production.

We have already pointed out that co-operative organisation will enable the cottage industrialists to reap some of the advantages derived from large-scale production. Such an organisation is absolutely necessary for the survival of the cottage industries which have disappeared from India and the economic interest of India demands that those industries should be revived. Such a revival will not be possible unless efforts are made to remove the difficulties that formerly stood on their way and caused their downfall.

The up-to-date appliances should be used.

One of the causes of the downfall of the primitive cottage industries was the competition of cheap foreign goods with the indigenous goods produced by Indian mills. The recent mechanical inventions however have made it possible for the small-scale producers to produce goods almost as economically as can be done by the large-scale manufacturer. Therefore the first step that should be taken in reviving the cottage

industries will be to promote the use of these upto-date machineries.

The co-operative credit societies will provide the industrialists with easy and cheap credit.

Another cause of the downfall was the want of credit facilities. The cottage industrialists had to borrow money from the village money-lenders at an exorbitant rate of interest and this rate of interest had the effect of increasing the cost of production involved in producing the articles. The industrialists can by means of co-operative organisation solve this problem.

Chronic ignorance should be removed.

Other causes of the decay of the cottage industries were the chronic ignorance of the industrialists and the defective training that they obtained in former times. The cottage industrialists illiterate as they were could not have any knowledge of the mechanical invention of the day and therefore could not be profited by such inventions. Again, the system of training was defective in as much as only practical training was imparted to the industrialists and there was no arrangement for imparting the theoretical knowledge. Efforts should however be made to improve the industrial training of the people by establishing such schools as have been recommended by the Industrial Commission. The Government should make arrangement for the training of the artisans by head-masters with practical knowledge of the industries taught. Several technical schools have been established in almost every province of India. The Bengal Technical Institute has made provisions for scientific instruction and practical training in certain branches such as mechanical and electrical engineering, sheet metalling etc. Another important institution is the Association for the Advancement of Scientific and Industrial Education. Similar other institutions are imparting technical education to the students but the number of institutions is still very small.

Institutions for training.

The Government of India should allow the

Duty of the Government.

importation of machineries and appliances and should not impose any duty upon them. Again, the Government should help the formation of co-operative unions among the industrialists.

Sc. 20. How far the Western methods of organisation has been adopted in India.

The work-shop system is supplanting the system of cottage industry.

We have already seen that the system of cottage industry is being substituted by workshop or factory system of the western type. Now the workmen are to render their respective services under the supervision of foremen or Superintendents. There is division of labour and no one has to perform more than one single operation. The production is now carried on a large scale with up-to-date implements. There has been localisation of industries and the management of industries has taken various forms.

The industrial revolution has come to India only recently and the industries are still in their infancy.

All the above changes have increased the efficiency of production and enabled India to compete successfully with foreigner in the production of some articles. But we should remember that this industrial revolution did not take place in India so earlier as in the western countries and the result is that most of the Indian industries are still in their infancy and as such cannot successfully compete with the well-established industries of the western countries.

The industrial revolution first manifested itself in the two principal industries of India *viz.* cotton and jute. About the middle of the last century these two industries were established in Bombay and Bengal respectively. The revolution then spread to other sphere of human activity. The Great war increased the demand for Indian manufactures and thereby gave a temporary stimulus to the Indian industries.

The present position of this industries has been influenced greatly by the Swadeshi movement and the policy of 'discriminating protection' adopted by the Government of India.

The high freight charges affect the industries.

In India although owing to the extension of market by the Railways production is carried on a large scale yet the economies of such production are not as great as those derived by the western countries. The freight charges of India are higher than those of western countries and in consequence, the market for commodities is not so extensive in the former as it is in the latter. This is mainly the reason why the cost of production is generally higher in India than in other countries. Again, the Goverment of India which generally supports the policy of free-trade has not as yet taken a keen interest in developing the Indian industries by imposing heavy protective duties upon foreign goods.

The Government is indifferent.

The localisation of industry was not unknown to ancient India.

The localisation of industries which is another characteristic of western organisation was not unknown to India in ancient time. There are various causes that lead to the localisation of industry. Of these the patronage of the court, the nearness of the market and the availability of raw material are important. In ancient as well as in modern India we find instances of such localisation—e. g. The Shawl industry of Kashmere, the Musllin industry of Dacca; but the causes that led to the localisation of ancient industries were not the same as those lead to the localisation of industries at the present time. In ancient times industries were localised mainly at places where the courts were established and which would be visited by the pilgrims for their holiness. But in recent times localisation has much more reference to the nearness of the raw materials than to any other causes. Of the localised industries the following are important—

The recent causes of localisation.

(i) The Cotton industry of Bombay,
(ii) the Jute industry of Hooghly,
(iii) the Leather industry of Cawnpore.

There is a change in the form of business organisation.

There has been changes in the form of business organisation. In modern India we find instances of various kinds of business management—(1) The Entrepreneur system, (2) the Partnership system, The Joint-Stock Company, (3) The Co-operative system. In ancient India industries were generally carried on in cottages and the scale of production was very small. The question of management was not therefore very important in those days. But with the introduction of factory system of production the management of business has begun to play an important part.

The organisation plays a more important part in recent times.

Now the nature and character of production requires an efficient man or body of men to exercise control over it. There must be a manager or organiser to determine how the three other agents *viz.*, land, labour and capital should co-operate with one another in producing utilities in the best possible way. The functions of such an organiser mainly consist in hiring land and labour, in purchasing raw materials and implements required for production, in engaging the hired labourers to perform those operations for which they are fit and last of all in supervising that everything goes on smoothly. This act of organisation may be conducted by a single person taking the whole risk of production or by two or more persons who individually and severally take the whole risk of business as in the case of partnership transactions or by a body of persons who divide the risk in proportion to their shares.

The organisation of an industry is greatly dependent upon the efficiency of the person in

charge of such organisation. A man having no organising faculty should not be entrusted with the organisation of an industry. The indusrial backwardness of India is in a great measure due to the want of efficient organisers. There are few men in India who have sufficient faculties to organise industries efficiently. This dearth of efficient organisers is again due to the shyness of the Indian capitalist and lack of enterprise among them. The Indians are very unwilling to exercise their faculties in risky enterprises but will remain satisfied if they can somehow or other secure a job at office. This slave mentality has been responsible for India's industrial failure.

Efficient organisation is rare in India.

Sec. 21. Industrialisation of India and the Government's duty.

In these days of International trade a country does not depend absolutely on the foodstuffs produced within it. Foodstaffs can easily be imported from other countries provided the importing country can give other articles in exchange. This is the reason why the doctrine of population as enunciated by Multhus has become antiquated in modern times. The question of population is in modern times not of mere size but it is one of efficient production. If the country can by developing the industrial efficiency of the population flourish in manufacturing industry it will find no difficulty in procuring foodstuffs from other countries in exchange of the manufactured articles that it produces. The problem of over-population in India will therefore be solved if the people of India can improve their efficiency in the production of manufactured articles. But it is impossible for the Indians to proceed in this line unless they are helped by the Government of the country. The Industrial Commission appreciated the necessity of this

The industrialisation of India is urgently demanded for solving the problem of over-population.

The help of the Government is absolutely necessary.

help from the Government and recommended the establishment of an administrative machinery for this purpose.

The administrative machinery, suggestion by the Industrial Commission.

The administrative machinery to be created for the development of Indian industries should, as the Commission recommended, consist of an Imperial Department of industry to be in charge of a member of the Viceroy's Council and of a Provincial Department the control of which should be vested in a Director of Industry. These departments have been created in accordance with the recommendation of the above Commission. The functions of these departments mainly consist in spreading the industrial knowledge by the publication of industrial pamphlets and in promoting research work in various industries. But this effort will bear no fruit unless adequate arrangement has been made for the primary education of the mass of the population. The spread of industrial knowledge will be of no effect if the people of India remain as illiterate as they are at the present time.

The functions of the Government.

(i) spread of industrial education.

(ii) Regulation of the Tariff policy.

Another important step that should be taken by the Government is to regulate its Tariff-policy in such a way as will prevent the importation of those foreign articles that compete freely with the infant industries of India, but in doing so the Government should take care so as to protect only those industries which have enough prospect for success within reasonable time. The Fiscal Commission recommended the establishment of a Tariff Board which would be entitled to make recommendation on this point to the Government of India. Such a board was established in 1924 with three members.

The Tariff Board.

The Government should always bear in mind the importance of industrial exhibitions and

should take an active interest in organising such exhibitions. Exhibitions of this character help the growth of industries by spreading a knowledge of them, suggesting novel ideals to the intelligent observers and widening the market for the articles exhibited. They serve as an advertisement to the consumers and exercise educative influences upon the minds of the producers.

Industrial exhibitions.

Sc. 22. The failure of Indian industries and its causes.

So far as the industrial development is concerned India is still in her infancy. There are several causes which are responsible for her industrial backwardness. Let us have a brief account of each of those causes.

The four agents of production are defective.

The nature and amount of production are intimately connected with the nature of the supply of the four agents of production—(1) Land, (2) Labour, (3) Capital and (4) Organisation. When we study the supply of each of these agents in India and compare it with the similar supply of other countries we will at once come to know the defects which are inherent in the agents of production as found in India. The land lacks in many mineral properties which go to increase its fertility. The labourers are unskilled and illiterate. The supply of capital is very small and even this small amount of indigenous capital is not invested in profitable enterprises on account of the shyness of the Indians. Lastly, there are few leaders of industries to organise the industries efficiently.

(1) The heavy freight charges affec prejudicially the industries of the country.

Besides this defective nature of the supply of each of the agents of production there are several other evils that stand on the way of India's industrial success. One of these evils is the

heavy freight charges. The construction of Railways has no doubt done a great service to the Indians but a comparative studyof freight charges by Railways of different countries will at once show that the Indian Railways have not helped the development of industries in the same way and to the same extent as has been done by the Railways of foreign countries. The high freights charged on industrial goods has the effect of narrowing the market and reducing the scale of production. These heavy freight charges have been responsible for the recent depression in the coal industry of India.

The heavy cost of setting machineries.

(2) The next important cause is the heavy expenditure that is to be incurred in setting machineries. We have to import these machineries from foreign countries and set them up in our own country. The expenses of setting up the machineries are higher in India than in foreign countries. Again, if by accident one of the parts of such machineries becomes out of order and has to be replaced by another we have to import that part again from the foreign countries and the machineries remain idle until such part has been replaced.

The foreigners have knowledge of the quality of goods demanded by the Indians.

(3) The foreigners know thoroughly the nature of the articles that are demanded by the Indians and are supplying such commodities as are suited to the tastes of the Indians. It is very difficult to drive these foreign traders away from India.

The competition of cheap foreign goods.

(4) Another important cause of India's Industrial failure is the competition of cheap foreign goods. The well-established industries of foreign

countries can supply commodities at a rate cheaper than that which will be charged by the infant industries of India for the supply of similar commodities.

(5) Again the foreigners will sometimes sell commodities at a price which is lower than the cost of production involved in producing such commodities with a view to destroy the infant industries. This is what is technically known as the *dumping* operation.

The dumping system adopted by the foreigners.

(6) The indifference of the Government is another important cause. It is very difficult for a country to flourish in the sphere of industry unless the Government takes a keen interst in the development of its industries and acts accordingly. We know that Germany and U. S. A. could not attain industrial success had not the Government of each of these countries protected the infant industries by imposition of protective duties. The necessity of such protection was keenly felt in India long long ago but the Government of India continued to follow the policy of free trade till recommendations were made by the Fiscal Commission in the opposite directions. It was in accordance with the recommendations of the above Commission that a Tariff Board was established for the first time in 1924 and the first recomendation that the Board made was for the protection of Steel and Iron industry. The Steel Protection Act which was passed in 1924 fixed the import duty on Steel bars at Rs. 40 per ton and on Sheet at Rs. 30 per ton and over and

The indifference of the Government and want of protective policy.

The Tariff Board.

The Steel Protection Act.

above this protective duties granted bounties at a certain discriminating rate. Besides this Steel Industry which has obtained protection there are several other industries such as Paper, Cement Printers' ink which are urgently in need of protection. The Government will do well to impose heavy protective duties on any and every industry that shows immense prospect of development.

The defective method of advertisement.

(7) Another important cause is the defective system of advertisement. In these days of keen competition it is very difficult for a manufacturer to flourish in his business unless he has by means of advertisement managed to draw the attention of the consumers to the quality of the goods that he turns out.

Sc. 22 (a). Industrial Revolution and the Growth of Indian towns.

In a preceding section we have dealt with the industrial revolution. We shall presently deal with the growth of towns which has been facilated by such revolution. The factory system of production necessitates an employment of a large nnmber of labourers. The labourers have to live near the factory in order that they may attend their workshop in due time. The factories of the same type are localised at one particular centre where they can have a ready supply of labourers and the raw materials In this way industrial towns such as Bombay, Calcutta, Madras, Karachi and others have come into existence. The population of these commercial towns is swelling gradually. At present there are thirty-four Indian cities with a large pupolution but it should be noted in this connection

that all of them are not important industrial centres. In India the growth of town has been influenced by causes other than industrial development.

The decay of the cottage industries and the dispossession of the peasant propietors have created a class of landless labourers who have to run to the towns in search of employment. The landlords and the wealthy people are attracted by the comforts of town life and are found to live there. The towns have generally been the centres of secondary enducation. The school and colleges attract students from various parts of the country and in this way the population of the town increases enormously. The middle class people who serve in Merchant and Government offices are sometimes compelled to live in towns with their families and thus add to the population of towns.

Sec. 23. Comparative advantages of manufacture over agriculture.

The pressure of population upon land.

India is mainly an agricultural country. Almost 90% of the population of this continent depend more or less upon the lands available in it. The result is that every net annual increase in the population has the effect of increasing the pressure of population upon land. This preponderance of agriculture is the main cause of India's poverty. The several commissions that were appointed by the Government of India to enquire into the cause of Indian famines unanimously declared that the absolute dependence upon agriculture was the cause of India's poverty and recommended diversification of industries as the most important remedy. On the other hand there are European economists who are against the industrialisation of India and advise her to stick to agriculture as her sole

The diversification of industry has been suggested as the only remedy.

industry and try to develop this industry alone. Which of the above two extreme views should be adopted by India? This question can be answered only when we have considered the respective merits and demerits of agriculture. Let us therefore have a brief review of the comparative advantages of manufacture over agriculture.

The Law of Diminishing Return operates in agriculture.

(1) The agriculture is an industry that is subject to the operation of the Law of Diminishing Return and in consequence, a country which has to meet all her internal and external demands from the products of the soil must be confronted with the operation of such a law. The law has already begun to operate in some parts of India and in other parts it is sure to manifest itself within a short time if the population goes on increasing at the present rate. The operation of the Law of Diminishing Return will lead to a rise in prices and the misery of the mass of the population will know no bounds.

The prosperity is uncertain on account of the predominant part played by nature.

(2) The prosperity of an agricultural country is uncertain. This is due to the fact that nature plays the predominant part in this industry. There are certain natural properties of the soil which cannot be restored when exhausted even by artificial application of manures. Again, an agricultural country is dependent upon nature for the adequate supply of water without which this industry cannot flourish. The problem of water supply cannot always be solved by the construction of irrigation canals. The failure of crops in India is mainly due to the want of rainfall, to the excessive rain-fall or to the untimely rain-fall.

The labourers of an agricultural country are illiterate and immobile.

(3) The labourers of an agricultural country are generally illiterate and immobile. The industry in which they are engaged requires little or no teachnical education. This illiteracy

and unskilfulness promote idleness and cause much waste of energy. They remain idle for most part of the year when there is no work in the field to do. The case is otherwise in a manfacturing country. The labourers who have improved their general abilities by the modern system of industrial training and who have obtained some specialised knowledge relating to one industry can easily transfer themselves to another industry when the former industry comes under a depression.

The standard of living is extremely low

(4 The standard of living is very low in an agricultural country. This is due to the fact that in such country the average income of the people is very small. This low standard of living has a cumulative effect upon the efficiency of the population.

An agricultural country cannot reap the advantage of large-scale production.

(5) The economic advantages of a large-scale production and localisation of industry can not be reaped by an agricultural country. The manufacturing country on the other hand can enjoy these economic benefits. Again, a manufacturing country can offer opportunities of employment to the labourers and thereby solve the problem of unemployment to some extent.

The disadvantage of carrying goods to other countries.

(6) Another important disadvantage which agricultural country suffers from is the double freight charges that it has to pay while exporting goods to foreign countries. It has to send large number of ships because the raw materials are more bulky than the finished products. All these ships are not required by the foreigners to send their manufactured commodities to the agricultural country and in consequence, the ship owners will not be willing to carry the goods unless the agricultural country pays the double freight charged by them.

Considering the above advantages derived by manufacturing country over an agricultural one

we cannot agree with the European writers in their opinion that India should remain an agricultural country for all time to come. On the other hand we are in favour of the speedy industrialisation of India.

India has sufficient supply of raw material.

India has immense prospect for industrial success. At present India produces raw materials and import finished products. She has to exchange raw materials for the imported articles. If India takes upon herself the task of manufacturing commodities which she has to import from foreign countries she will not have to depend upon foreign countries for the supply of raw materials. Thus she will have an advantageous position because she will have a ready supply of raw materials at a cheaper price. Again, the manufacture of commodities will increase the internal demand for raw materials and the agriculturists will not have to sell their articles in a foreign market. The supply of raw materials will easily respond to the demand for them and there will be little or no chance for over-production and consequent fall in prices. India should therefore, aim at fostering the development of her manufacturing industries.

Sec. 24. A brief account of Some important industries :—

In this section we shall consider the conditions of several important industries of India and suggest certain schemes by which improvement can be effected in them.

The hand-loom weaving industry still survives but its sphere has been restricted to the production of

(i) *Handloom Cotton Weaving* :—Though this industry has now fallen into decadence owing to the competition of cheap foreign goods it still provides a large number of people with employment. Sometimes this industry produces articles which are remarkble for their fineness. The muslins of Dacca speak of the development which

handloom industry can attain. This industry now produces those articles for which the demand is too small for the mill-industry to compete. The small-scale of production which characterises the hand-loom industry is a disadvantage which can only be removed by means of co-operative organisation. If the hand-loom weavers sow the seeds of co-operation among them they will be in a position to derive all the advantages of large-scale production and to compete freely with mills in producing articles of every description. It should be noted in this connection that this industry depends on foreign countries for the supply of cotton yarns that it requires and in consequence, is sure to be affected by the imposition of an import duty upon cotton yarns even for revenue purposes. It is therefore desirable that the spinning of cotton should be encouraged along with the development of the weaving industry. The non-co-operation movement has undoubtedly given an impetus to the spinning industry of India.

those articles for which the demand is too small to attract the competition of mills.

How an import duty on cotton yarn affects this industry.

Although the hand-loom cannot turn out cloths as economically as the mills yet they have survived on account of the following reasons :—(1) The hand-looms can be worked with small capital. The weavers carry on production with the help of children and female members of the family (2) weavers produce articles of special character as well as articles that requires artistic skill (3) The articles turned out by the weavers are stronger and more durable than those produced by mills.

Reasons for the survival of hand-loom industry.

The hand-loom weaving industry gives employment to thousands of labourers and the progress of this industry will solve the problem of un-employment to some extent. Attempts should be made to improve this industry in the following ways:—(1) The use of up-to-date appliances, (2) Co-operative organisation, (3)

Exhibition of articles turned out by hand-looms, (4) Spread of elementary education and the introduction of weaving classes, (5) Improvement in the preliminary process such as ginning cleaning etc. (6) close touch of the weavers with the outside world, (7) Imposition of duty upon foreign articles of similar character.

The cotton mills have achieved importance in India.

(ii) *The Cotton Mills*—The first cotton mill was established in India as early as 1818 with English capital. The Indians soon came to know the importance and immense prospect of this industry and several cotton mills were established in Bombay and Amedabad with Indian capital. The number of mills went on increasing and in 1925 there were as many as 339 Cotton Mills in India. Most of those mills were localised in the Bombay Presidency the number of such mills in Bombay is 200. There are also several cotton mills in Bengal, in Madras, in the United Provinces, in the Central Province and Berar in Delhi and in Ajmere Marwara. The Native States of India contain as many as 27 Cotton Mills.

They are mainly localised in Bombay.

The two departments of this industry.

The industry has two departments—(1) the spinning and (2) the weaving. The spinning department generally produces cotton yarns of lower counts but the abolition of the Cotton Excise Duty has given a stimulus to the production of yarns of higher counts; but it should be noted that the yarns turned out by the mills are not sufficient to meet the demands for them and and in consequence, a large quantity of foreign yarns has to be imported every year. The weaving department has in recent times increased its scale of production because of the extensive demands for products turned out by Indian mills. There has been in recent times a great diminution in the importation of foreign goods.

Large quantity of foreign yarn is still used.

The cotton goods of India are chiefly exported to Straits Settlements, Ceylon, Sumatra and to the Colonies in Africa.

India imports yarns from the United Kingdom, China, Japan, Italy and Switzerland. About 53 per cent. of the total import of yarn comes from the United Kingdom. The import from Japan is declining while China's contribution remains almost the same. The total imports of twist and yarn amounted in 1929-30 to 43 8 million lbs. in quantity and Rs. 629 lakhs in value as compared with 52'3 million lbs. and Rs. 679 lakhs in 1927-28. This heavy imports of cotton yarn together with the total amount of yarn produced meet the demand for cotton yarns in India. The Indian mills have to turn out large quantities of cotton yarns. In 1927-28 the cotton yarns turned out by the Indian mills amounted to 809 million lbs. India also produces different classes of yarns but its production of yarns under count 31-40 is gradually increasing and as a result of this there has been a decline in the importation of cotton yarn.

The countries to which India's cotton goods are exported.

India's demand for cotton yarn.

The Cotton Industry has immense prospect for development but certain difficulties are impeding its progress—(1) First, the machineries are to be imported from foreign countries and therefore to the real cost of the machineries we are to add considerable amounts which are to be spent in paying up the freight and insurance charges. Again, the cost of erecting is higher in India than in England. (2) India suffers greatly for want of fine cotton. The American cotton cannot be imported into India with advantage. (3) The cost of production is higher on account of the inferior quality of Indian coal and the inefficiency of Indian labourers. (4) The heavy freights charged by Indian Railways go to increase the price of cotton goods. (5) The management of the Indian mills is often in the hands of persons who have little or no knowledge in the industry. (6) Higher dividends are paid in India than in Europe. (7) The Indian

The difficulties from which the industry suffers.

mills are not capable of producing goods of various descriptions. ·8 The warm climate of India leads to the breaking of threads and thus hampers the progresss of manufacturing operation.

They are in foreign hands and localised on the banks of the Hooghly.

(iii) *The Jute Mills*—The jute mills have attained considerable progress in India on account of India's monopoly in the supply of raw materials. The mills are localised on the banks of the Hooghly near Calcutta. These turn out gunny cloths which have extensive market all over the world. The Industry is mainly financed by European capital and is in the control of foreign enterprisers. There are as many as 93 Jute Mills in India.

Export of raw and manufactured jute.

Jute and its manufactures occupy generally the first place in the list India's exports. The total weight of raw and manufactured jute export during the year 1929-1930 amounted to 1,809,000 tons and their total value was 89,25 lakhs. Australia is the best market for Indian gunny bags; other countries which purchase gunny bags are the United Kingdom, Egypt, Indo-China, South Africa,, Java, Japan, China, the Straits Settlements and the United States. Jute industry gives opportunity to the labourers to get themselves employed and earn their livelihood. The ammount of capital invested in this industry has risen to about 22 crores of rupees. In recent times there has been a decline in the production of jute. This decline is due mostly to the fall in the price of jute and in some degree to the "short crop" propaganda started by the Indian National Congress. The effect of this short crop propaganda may be summarised thus:—(1) Rice will be cultivated in abundance and its price will fall. (2) Foreign industries that depend upon raw jute of India will be handicapped. (3) Dependence upon foreign market for the sale of jute will not be

Congress Propaganda.

considerable and there will be little chance of over-production. (4) The diseases like malaria which are caused by the cultivation of jute will disappear and the fertility of the soil will not deteriorated. (5) The export trade of India will diminish and if the import trade of India remains the same there will be an unfavourable balance of trade but ultimately as the goods pay for goods the import trade will diminish.

In respect of organisation the jute industry claims the first place among Indian industries. The formation of Jute Mills' Association has led to concerted action as regards the scale of production. This industry had to suffer from post-war slump and is at present keenly feeling the effects of world-wide depression and the frequent labour troubles; but the monopolistic position of this industry has helped much in the matter of facing these troubles boldly. There is the Calcutta Jute Dealers' Association which is concerned in looking after the interests of the dealers in jute for local consumption.

The principal centres.

(iv) *The Woollen Mills*—This industry has made very little progress in India. The number of mills does not exceed 13 but that the demand for its products is very large is shown by the excessive imports of wollen goods from foreign countries. The chief centres of this industry are Amritsar, Kashmere, Cawnpur, Agra, Lahore, Mirzapore, Rajputna, Bikaneer and Jaipur. The Shawl Industry of Kashmere is famous for artistic qualities of the product turned out by it.

The Shwals of Kashmere had an extensive foreign market in the nineteenth century. This large demand for Indian shawals continued till the out break of the Franco-German War in 1871 and the establishment of firms at Paisley in England which undertook the manufacture of shwal and ousted the Indian shwals from European market.

The carpet industry reached its highest development during the Mughul rule when the products of this industry were demanded in large quantities by people of high rank. With the downfall of the Mughul Empire the industry had to face a decline in the demand of its products but the British rule brought with it a large demand for Indian carpets in foreign countries. The industry has however lost its pre-eminent position because it has to depend upon a foreign market which demands only cheap products and the weavers are now guided and controlled by the middlemen who happen to enjoy the lion's share of the profits.

Another important wollen mamufacture is that of rough blanket which has an extensive demand among the poor. This industry is generally carried on in cottages. The abundant supply of wool from the sheep affords great facility to the production of rough blankets.

The chief centres of production.

(v) *The Silk Industry*—This Industry is in a decadent condition. The Indian silk was formerly exported in large quantities to western countries but the production of cheap silk by foreign countries has brought about a decline in the export trade. The chief centres of this industry are Murshidabad, Benares, Amritsar, Surat, Madura, and Mandalay.

When the East India Company established its trade marts in India it tried its best to export silk manufactures to England but the serious opposition of English weavers gave a death blow to its trade in silk manufacture. Again, the competition of China, Japan and the United States has almost driven out the Indian silk manufacture from European market. India at present export large quantities of raw silk in the form of waste or cocoons and imports re-reeled Chinese and Japanese silk which the weavers prefer to home-made silk because the

latter is full of knots. The decline of this industry is also due to the inefficient organisation, inadequate supply of capital and antiquated method of production. The importation of artificial silk has its worst effect upon the success of this industry. Recently attempts are being made to revive this industry by the introduction of selected Rearers System and by the imposition of high revenue duty of 15 per cent on foreign silk. The boycott of foreign goods has given a stimulus to the industry.

The industry is generally carried in cottages with the help of female members of the family. Sometimes the weavers are found to use foreign silk because the Indian consumers cannot afford to purchase indigenous silk goods. This industry can prosper in cottages provided steps are taken to introduce co-operative organisation among producers and to protect this industry from foreign competition.

The drawbacks of this industry.

(vi) *Iron and Steel*—This industry has attained considerable development only in recent years. India has been favoured by nature with large deposits of iron-ores but the want of coal fields in the vicinity of the iron-ores has hampered the progress of this industry. In recent times several iron-ores have been discovered near the coal fields and the difficulty which this industry suffered from in early times have been considerbly minimised. There are at present three Iron and Steel Companies of which two belong to Bengal—viz., (1) The Bengal Iron and Steel Company at Kulti and (2) The Indian Iron and Steel Company at Burnpore near Asansole. The third Steel Company which owes its origin to efforts of J. N. Tata is known as the Tata Iron and Steel Company situated at Jamshedpore in Bihar and Orissa. The Government of India has helped this industry by granting bounties as well as

There are at present three important companies.

by imposing protective duties in accordance with the recommendation of the Tariff Board.

Another important company is the United Steel Corporation started by Messrs. Bird & Co. of Calcutta at Manoharpur.

The foreign countries that import Indian product.

The pig iron is exported to Japan and to the United States of America in large quantities while Hongkong and Strait-Settlements are principal customers of Iron and Steel manufactures. The quantity of manufactured products is increasing day by day.

Output of pig iron.

British India no longer requires to import foreign pig iron as her requirements are met by her own resources. Her production in 1927-28 amounted to 1,162000 tons. The Government of India encouraged the development of this Industry by undertaking to purchase railway stores from Tata Iron and Steel Company.

Recent development of this industry.

(vii) *Leather* :—It is one of the important industries of India. The increased demand for shoes owing to the rise in the standard of living and the introduction of chrome process have led to the recent development of this industry. India has enough prospects for this industry as it has got an abundant supply of raw leather. What India now requires is the efficient training and organisation. If this want is satisfied there is no doubt that this industry will attain the highest development within a short time. The tanneries are to be found in large number at Cawnpore and Agra.

Efforts of the Government.

The Government tried to give assistance to this industry by the imposition of an export duty of 15 per cent with a preference of 10 per cent to British Empire. This export duty was imposed in 1919 but this policy of the Government was severely criticised by the Fiscal Commission as well as by the Taxation Enquiry

Committee. The duty was reduced to 5 per cent in 1923. The Indian Finance Bill of 1927 provided for the removal of the export duty of 5 per cent advalorem on raw hides but when the proposal was put to the vote the President gave his casting vote in favour of status quo.

Technical research.

Again, attempts are being made to develop this industry by technical research. Three such institutes have been established viz., the Calcutta Research Tannery, the Government Leather Working School at Cawnpore and the Leather Trades Institute at Madras.

The number of paper mills carrying on business.

(vii) *Paper Mills* :—The importation of cheap foreign paper has brought about a depression in the paper industry of India. At present there are only nine Paper Mills of which the Bengal Paper Mill, Titagar Paper Mill and All-India and Assam Paper Mills are important. The recent researches show that in the bamboo plants of India there are certain substances which can be profitably utilised in making paper. This industry can attain considerable development provided the Government imposes protective duties on papers imported from foreign countries.

The industry suffers from two-fold difficulties.

(ix) *Match-making Industry* :—It is an infant industry which has no chance of attaining development unless it is helped by the Government by the imposition of heavy protective duty. This industry suffers from two-fold difficulties viz,—(1) the difficulty of obtaining proper kinds of wood required for the purpose. (2) the heavy freights charged by the Railways in transporting the materials while the foreign articles are carried at a very low freight.

Glass industry suffers from two-fold difficulties.

(x) *Glass* :—Glass is an important article which India demands in large quantities. The women here often use *churis* which are made of glass. Ferozabad is famous for its bangle factories but the factories have not

achieved considerable progress. The industry suffers greatly from the want of efficient labourers and from the hot weather which causes difficulty in the matter of glass blowing. Again, the absence of coal near the factories has been another difficulty which has checked the development of this industry. This difficulty can, however, be overcome if factories for the manufacture of glass is localised near the coal mines.

Foreign competition.

(xi) *Chemical Industy*:—India has to import chemical products worth several crores of rupees every year. This industry once flourished in India but the competition of cheap foreign products has seriously affected the progress of this industry. Several Indian firms are trying its best to revive the chemical industries of India and medicines are being prepared by these firms. The Bengal Chemical Works of Calcutta have already established its reputation in the preparation of various kinds of chemical products and the recent boycott of foreign articles has greatly increased the sale of its products.

Why Indian Perfumes are preferred?

India produces a large quantity of perfumes. The chief centres of production are Ghazipur, Kanauj and Jaunpur. This industry, however, cannot meet the total demand of perfumes in India and the result is that large quantities of perfumes are imported every year. At present the political agitation in India has succeeded in changing the outlook of the people and Indian perfumes are preferred to those imported from foreign countries. India has established several perfumery factories which are producing perfumes on a large scale.

Centres of production.

(xii) *Manufacture of Utensil and Vessels*:—The Indians are found to use large quantities of utensils and vessels in their daily life. Even the poor people cannot do without these articles.

The chief centres which contribute to the production of these articles are Benares, Srinagar, Mirzapore and Murshidabad. Recntly, the aluminium wires are used in almost every household and this has led to the development of alluminium industry of Madras.

Causes of the failure of India's shipping industry.

(xiii) *Shipping Industry* :—In ancient times India used to carry her passengers and goods in her own ships. These ships were mainly made from teak wood and were superior to the European vessels ; but at present Indian vessels have been almost driven out and iron-built ships of foreign countries have usurped their places. The Navigation Acts are responsible in a great measure for the present position of Indian's shipping Industry. Again, the combination among foreign shippers has, by temporary reduction of freight caused the destruction of Indian concern. The Bengal Steam Navigation Company had to stop its business on account of the rate-cutting policy enunciated by the foreign ship-owners. Another difficulty which the Indian shipowners have suffered from is the heavy rate which the Insurance Companies have charged upon them. The Government has neglected the shipping industry of India and has patronised foreign ships by purchasing their services in the matter of carrying Government stores.

The decay of the shipping industry in India and the absolute dependence upon foreign ships have caused serious inconveniences. These foreign shippers have adopted a policy of regulating freight in such a way as to affect the interest of India's home industry. Attempt should be made to revive the shipping industry on the following lines as suggested by the Mercantile Marine Committee—(1) Reservation of the coastal trade to the shipping companies registered in India with rupee capital and

having majority of Indian shareholders and directors. (2) Preference to be given to the Indian ships in the matter of carrying government stores and granting mail contracts. (3) Provision for the training of marine engineers and another officers.

A table containing an account of the development of Cotton and Jute Industries in British India is given below :—

Year	Number of cotton-mills	Persons employed	Capital invested
1904-05	187	17868	£11 million
1916 17	268	279370	£14 million
1924-25	337	317877	Rs. 38 crores approximately

Year	Number of jute mills	Persons employed	Capital invested
1901-02	36	114,324	about Rs. 7 crores
1916-17	74	262,199	about Rs. 14 crores
1924-25	81	327,000	about Rs 22 crores

Questions and Answers.

1. State concisely some of the chief obstacles in the way of India's economic progress. What are the country's requirements for an efficient manufacturing growth and what are the special needs for agricultural development (C. U. 1909, See Sec. 22.)

2. What do you consider to be the real function of foreign capital in developing the resources of a backward country like India? Consider the educative influence of foreign capital in this country. (C. U. 1910, See Sec. 12.)

3. Arrange in order of their importance the chief industries of India. Give the main features of India's Agricultural problem and other steps taken by the Government during the last fifty years to meet some of the evils of our agricultural situation. (C. U. 1910, See Secs. 24 and Ch. IV.)

4. Write a note on the production and character of coal and iron-ore in India indicating location of mines with special reference to the possibilities of Bengal coal industry. (C. U. 1910, See Sec. 24.)

5. Describe the present position of the hand-loom industry. To what extent and under what conditions can it be compared with power loom industry. (C. U. 1914, See Sec. 24.)

6. What in your opinion are the chief hindrances to industrialisation in our country? How can we avoid the evils of the latter day industrialism of the west? (C. U. 1920, See Sec. 22.)

7. Examine briefly the limits and direction of state action with regard to the development of manufacturing industries in India. (C. U. 1920, See Sec. 21.)

8. Enumerate the chief defects of Indian industrial labour and suggest measures for improving its efficiency. (C. U. 1920, See Sec. 8.)

9. Comment on the following :—" Even if the system of production on a large scale be adopted in India the small industries need not die out." (C. U. 1925, See Sec. 18.)

10. Examine the possibilities and limitation of hand-loom cotton industry in India. (C. U. 1927, See Sec. 24.)

11. What are the different forms in which foreign capital enters India. How far does the employment of foreign capital help or hinder the development of Indian industries? (C. U. 1926, See Secs. 12 and 14)

12. Mention the measures which may conduce to the improvement of Indian handicrafts and cottage industries under present condition. (C. U. 1921, See Sec. 19.)

13. What methods would you suggest for the improvement of efficiency of Indian mill labour. (C. U. 1920, See Secs. 8-10.)

14. Write a brief critical note on the hoarded wealth of India. (C. U. 1918, See Sec. 15.)

15. Account for the high birth rate and high death rate in India. (See Sec. 4.)

16. What remedies do you suggest for overcoming the miseries due to over population in India. (See Sec. 7.)

17. Give an account of the Factory Legislation in India. (See Sec. 9.)

18. Discuss the advantages of cottage industries and their importance in India; how can those industries be revived. (See Sec. 17.)

19. Discuss the comparative advantages of manufacture over agri culture. (See Sec. 23.)

20. What is the position of jute in the foreign trade India? Discuss in this connection the economic effect of a restriction of jute cultivation as advocated by the Congress party in Bengal. (C. U. 1929, See Sec. 24 sub sec. (iii.)

21. How do you explain the survival of the cottage industries in modern India? What means would you suggest to improve their efficiency in the face of competition with the machine industries? (C. U. 1930, See Sec. 19.)

22. Discuss fully the importance of Indian industrial labour. How far do you think it might be possible to counteract them? Indicate the lines of reform that you would suggest. (C. U. 1930, See Secs. 8 and 8a.)

23. Examine the arguments for and against the use of foreign capital in India. (C U. 1931,)

CHAPTER VII

CONSUMPTION.

Sc. 1. The necessity of Consumption.

Articles that satisfy human wants can be classified under three heads.

Human wants are unlimited in character and we find human beings continually exerting themselves for the satisfaction of these wants. There are several articles without which man cannot keep his body and soul together. These must be procured. Otherwise he will die of starvation. Again, there are articles which are not required for the maintenance of human life but which, if supplied, will go to increase human efficiency. Lastly there are some articles which are demanded only for the satisfaction of a burning desire for consuming things of luxury.

Generally speaking wants that lead to activity but it is equally true that activity sometimes gives rise to new wants.

We are familiar with the well-known maxim that "necessity is the mother of invention." Thus it is wants that lead to activities. Men work hard only with a view to provide themselves with articles without which it is simply impossible for them to go on. It is however equally true that sometimes it is activity that leads to increased wants. Some articles are produced for which people felt no wants previously but they gradually become familiar with those articles after they have been produced and begin to feel wants for them. Nobody felt want for a gramophone before it was invented but when it has been invented and people have become familiar with the use of it they begin to feel a burning desire for purchasing one of that kind. Thus we see that production is intimately connected with consumption.

We started by saying that human wants are unlimited in character; we should not however think that every particular want of man is unsatiable. In fact every additional unit of a particular commodity will go to decrease the utility for that commodity and a time will soon come when a man will cease to demand any more of that particular commodity. What we mean to say is that human wants are numerous and when one of these wants has been satisfied he will be found to feel another new want and in this way he will go on without having ever all his wants satisfied.

Human wants are numerous.

Sc. 2. Nature of Indian Consumption.

The standard of living is not the same in all the countries. There is no such thing as universal fixed standard of living. It varies with the economic position of different countries, with the difference in natural and social environment under which people of different countries live and lastly with the ideals of life that people of different countries entertain. Men living in a prosperous country with a cold climate will necessarily have a higher standard of living than those belonging to a poor country with a warm climate. Again people with a spiritualistic ideal of "plain living and high thinking" will certainly have a lower standard of living than those with a materialistic disposition.

The standard of living varies with the climatic and economic conditions and spiritualistic ideals.

In India we have all the above circumstances which go to lower the standard of living. The country is poor, the climate is warm and the people are of spiritualistic disposition. All these three factors have been responsible for the low standard of living in India. We should not however think that the Indians, irrespective of classes have the same standard of living. The standard of living is different among the different classes. Thus there is not one standard of living

The standard of living is different among the different classes.

but many standards of living in a vast country like India. Let us divide the whole population of India into three classes viz.—The rich, (2) The middle class men, (3) The poor.

The standard of living of the rich.

The standard of living of the rich is higher than that of the middle-class people and still higher than that of the poor. They consume nutritious articles like meat, milk, butter and ghee in large quantities. They live in well-ventilated buildings well-decorated with furniture of every description. They spend a large amount of money in purchasing decent and valuable dresses and still larger amount for the education of their children. But the number of such people is very small in India.

The standard of living of the middle-class.

Then we come to the middle-class men and find that their standard of living is much lower than that of the rich but higher than that of the poor. These people spend a very large percentage of their income in food and dresses. They cannot afford to wear valuable dresses but have to remain satisfied with plain and simple ones. They seldom consume nutritious article like meat, milk, ghee and butter and the amount spent in procuring dwelling houses is not very large. This class contains a large number of of people than the former class (the rich).

The standard of living of the poor.

Next we come to deal with the standard of living of the poor. They are destined to live miserable lives. They are to live in insanitary houses, eat unwholesome food and wear dirty cloths. They cannot afford to train their children even in elementary schools. In certain seasons of the year viz. in the rainy season they often fail to secure the barest necessaries of life.

The cause of the low standard of living.

We have seen above that economic position of a country has a great influence upon the standard of living of the people. The small income of the Indians which is due to the

absolute dependence upon agriculture as the sole industry compels them to curtail their wants in every direction. The result is that men fail to consume the articles that are necessary for efficiency and remain poor for all time to come. This unhappy state of things cannot be improved unless and until the country is industrially developed.

The rise in price has affected the condition of poor men very much.

The position of the poor people is worse than what it was in former times. This is due to the fact that the prices of all articles have, as the General Index Number shows, risen very high while the income of the mass of the population has not risen proportionately If we compare the prices of articles in 1873 with that in 1925 we will find an increase to the extent of 98 per cent.

Again another cause of the misery of the population is to be found in the spread of western civilisation. The Indians are trying to imitate the western fashions in the matter of dress with the result that a large percentage of their income is being spent in dress to the detriment of their health and strength.

Sc. 3. Nature of Indian diet.

The nature of the food we consume and its effect upon our efficiency.

The principal food which the Indians habitually consume is rice which contains 80% of starch and only 7 per cent of protein; along with this rice they generally take sufficient quantity of dal or pulses some amount of vegetables and small quantity of fish. The 'dal' contains sufficient protein and fish contains much of nitrogenous matters. Although some amount of starch is needed to constitute good diet consumption of too much starch is detrimental to health. This is the reason why the Indians generally suffer from indigestion and dyspepsia It should be remembered that

vegetables contain properties which can neutralise the evil effects of excessive starch consumption. The Indians will therefore do well to consume sufficient quantity of vegetables. Another important point that should be particularly noted in this connection is the prepara- of food. In preparing food care should be taken to use as small a quanty of spices as possible.

Question and oAnswers.

1 What is the nature of Indian Consumption ; how does it differ from that of civilised countries ? (See Sec. 2.)

2. What is the character of Indian diet. (See Sec. 3.)

CHAPTER VIII

INDIAN FAMINES.

Sc. 1 Why Famine happens so frequently ?

India is an agricultural country; almost 90 per cent. of its population depend upon agriculculture as the only industry and their prosperity is intimately connected with good harvest. The failure of harvest must necessarily bring famine to India. In India such failure often takes place on account of the defective system of irrigation and absolute dependence upon heaven for the supply of water. There are other causes of famine which we will discuss later on.

Sc. 2. History of Indian famines.

Famines were not unknown to ancient India but the occurrence of famine was not so frequet as it has been in recent time. The term "Mannantar" which is a synonym of famine and implies the end of an era goes to show that famines occurred, only after long intervals.

Famines were rare in ancient India but they are visiting the country frequently since the beginning of the British rule.

In the Muhammedean period we have sad records of four famines but famine became more numerous during the rule of the East Indian Company. The situation has become worse since the passing of the throne to the Crown and India became the victim of as many as ten devastating famines in the course of 40 years ending in 1900.

The Bengal Famine of 1770.

The outbreak of famine has become more frequent in the twentieth century and we will seldom find a year in which some part or other of the country does not suffer from scarcity of food.

One of the most terrible famines that broke out during the rule of the East India Company was the Bengal Famine of 1770. The principal causes of this famine were the failure of rains and the defective administration of the country by the Company. This was followed by another Famine in Northern India in the year 1784.

The only step that the Government used to take in those days for relieving the distress of famine-striken people was to regulate the trade of grain and to fix the price of it.

The North-India Famine of 1860.

The first and the most serious famine that broke out during the Crown period was the famine of 1860 which visited northern India. This famine was occasioned by the failure of rains and the disorganisation of trade brought about by the wars of the Mutiny. The Government tried its utmost to remove the distress of the people during that time by supplying able-bodied persons with employment and providing others with gratuitous relief

The Famine of 1866 and 1876

Next came two other terrible famines one of which visited Orissa in 1866 and the other broke out in Southern India in 1876 During this time the relief-policy of the Government was too lenient to be satisfactory.

The recommendation of the Famine Commission.

A Famine Commission was appointed in 1878 to make recommendations as to the principle that should be adopted in granting famine relief The Commission recommended that relief should be granted in such a way as not to encourage improvidence and demoralisation among people suffering from the effect of famine. The best policy of famine relief will be to provide able-bodied persons with employment by opening out relief works and to supply others with gratuitous relief.

The short period that intervened between the year 1889 and the year 1897 witnessed three

The second famine commission.

terrible famines. A second Commission was appointed in 1898 to make recommendation on the principle of famine relief. This Commission recommended that special care should be taken in relieving the distress of the weavers and people of certain hilly tribes who were quite helpless during that famine.

The third Famine Commission of 1901.

These famines were followed by another famine which visited the Punjab, Rajputna and several other parts of India. A Famine Commission was appointed in 1901 to recommend the soundest principle of famine relief. It recommended that the famine policy to be adopted by the Government should be neither too strict nor too lenient.

Recent famines.

Several famines visited India in 1907-8, in 1913-14 and 1918-21 but these were local in character and did not require any large scheme of relief. In 1929-30 famine occurred in parts of the United Provinces, the Central Provinces and the Punjab, owing to the failure of rain and scarcity was caused by flood in some parts of the Punjab, the North-west Frontier Province, Assam, Burma, Bengal, Bombay, Baluchisthan and Kashmir.

Sc. 3. Economic causes of famine.

The want of rain-fall or excessive rain-fall causes failure of harvest.

In this section we shall deal with the causes that are responsible for the frequent occurrence of famine. Famine, which means scarcity of food-stuffs is said to visit India when on account of want of rainfall or excessive rain-fall there has taken place a failure of harvest. India depends mainly upon heaven for the supply of water and in consequence, every failure of rains is followed by a failure of crops. The root cause of Indian famine is therefore either the failure of rain or excessive supply of rain-water which makes cultivation of the soil impossible.

(2) The next important cause of Indian famine is the poverty of the people. The average income of the people is too small to leave any surplus behind after their necessary expenses have been met. Thus they have no reserve fund to fall back upon in the times of scarcity. Again, there are some pernicious social customs which force them to spend large amount of money on ceremonial occasions and often we will find the poor Indians incurring heavy loans at an exorbitant rate of interest. It has been said that famines of India are famines of money and not famines of food This is generally true in as much we find that there break out famines in some provinces of India when the other provinces have sufficient stock of food crops. The people of the famine-striken area suffer mainly for want of money. If there is sufficient supply of money they can easily purchase food stuff from other provinces and thereby remove their difficulties due to the failure of harvest in their own country.

The poverty of the people and the want of resisting power.

(3) Another important cause is the almost absolute dependence upon agriculture. The Indians depend mainly upon agriculture for their maintenance and industrialisation is still in its infancy in India The result is that every time there is a failure of harvest and there is no work in the field to do they are out of employment. They become quite helpless and find no other means of earning their livelihood. Contrary is the case in an industrially developed country. In such countries there are diverse kinds of industries where people can find employment and depression of one industry does not affect the material condition of the people very much.

The absolute dependence upon agriculture.

(4) *Excessive land assessment:*—It has been held by Mr. R. C. Dutt that the system of land revenue as prevalent in India is another cause of famine. The temporary settled districts of India

Mr. R. C. Dutt says that excessive land assessment is one cause of famine.

have to pay a large percentage of the fruits of their labour to the Government as revenue and what is left after revenue has been paid is scarcely sufficient for the maintenance of the poor peasants. The Government has tried in vain to adduce evidences to show the unsoundness of this criticism.

Sc. 4. The economic effects of famine.

It has its worst effect upon the supply of labour and capital of the country.

We have studied in the preceding section the causes of famine. Let us now turn to discuss its effects The scarcity of food during the times of famine is responsible for the untimely death of thousands of people and those who survive have their efficiency injuriously affected. The diminution in the supply of human agents of production which is thus brought about retards the economic progress of the country for several years Famine also causes a destruction of the humble stock of capital which a poor country like India may happen to possess. All the savings of the people are spent during this time and the agricultural live-stock die out for want of fodder. There comes a dispression of trade and industry and it continues for several years together. The moral structure of the country is destroyed and crimes of all descriptions vitiate the atmosphere. The Government has to incur considerable expenditure on famine relief and to grant remission of the revenue payable by the distressed people. The total direct expenditure in this connection amounts to an average of one crore of rupees a year.

Sc. 5. Suggested remedies :—

Several remedies have been suggested for preventing the occurrence of famine as well as for mitigating the miseries that famines bring with them.

The most important of these remedies is the improvement of the system of irrigation. The

immediate cause of famine is either the failure of rainfall or excessive rainfall. If the system of irrigation is improved the failure of rainfall will cease to affect the agricultural prosperity of India and famines will be few and far between. With regard to the latter cause, viz the excessive fall of rain the only remedy that we can suggest is the improvement of the drainage system of the country.

(1) The system of irrigation should be improved.

(2) The next important remedy is the preservation of forests which greatly influence the rainfall by keeping the atmosphere up to certain height cool The forests also provide the cattle with fodder the supply of which is very small in India.

(2) The preservation of forest.

(3) Another remedy that is often suggested is the improvement of agriculture by th introduction of scientific method of production. The cultivation of land by this method will certainly increase the return from land and will thereby improve the economic position of the peasants Production can be profitable carried on according to scientific process only when there is consolidation of small holdings

(3) The introduction of scientific method of production.

(4) The revival of the cottage industry is another important remedy that may be suggested The cottage industry provides the people with a by-occupation and affords opportunity for the best utilisation of the labour of women and children who will otherwise remain absolutely dependent upon the male adult members of the family. The average income of the people will be increased so as to leave certain surplus after their necessary expenses have been incurred.

(4) The revival of the cottage industries.

(5) The industrialisation of India is another important remedy. The poverty of the Indians is due to the increasing dependence upon agriculture. Famine makes its appearance whenever there is failure of harvest and the

(5 Diversification of industry.

misery of the people knows no bounds. If on the other hand there are diverse kinds of industry the failure of crops will cease to affect the economic condition of the people very much and people who are out of employment will without difficulty be able to transfer their labour to other industries which are not under depression.

(6) The credit structure of the country should be improved.

(6) Another remedy that is often suggested consists in improving the credit structure of the country. The provorty of the peasants is mainly due to the exorbitant rate of interest extorted by the village money-lender. If the Government comes forward and uses a part of the Famine Insurance Grant by way of loan to these poor agriculturists their economic position will be better and their resisting power against scarcity and famine will increase.

Co-operative organisation.

The people should try to improve their own condition by means of co-operative organisation. Such organisations will certainly help them in the matter of purchase of manures, seed and implements of production and will enable them to get loans at a lower rate of interest.

The illiteracy should be liquidated.

(7) Efforts should be made to remove the illiteracy of the people and to teach them how to make the best use of their resources. The Legislature should make laws restricting the tenant's power of alienating their lands.

The system of assessment should be remodelled.

(8) The system of assessment of land revenue should be remodelled. Our experience shows that people living in the temporary settled areas suffer more frequently from scarcity of food than those of the permantly settled districts. The introduction of Permanent Settlement throughout India will we hope, check the recurrence of famines. The system of taxation should be based upon sound principles. The heavy incidence of taxation upon the poor takes away their resisting power.

Again, the present administrative machinery which favours centralisation of power is detrimental to the economic interest of the people. Village-organisations such as Union Boards should be vested with certain judicial powers so that they may decide disputes of the people and thus reduce the cost of litigation. System of taxation and of administration should be remodelled

(9) The construction of railways all over India is another important remedy that is often suggested. The services that are rendered by the railways during the famine times can never be exaggerated. They facilitate the transportation of food stuffs from the parts where there is plenty of food stuffs to those where people are suffering from scarcity. The rapid construction of railways has changed the character of famine. Formerly famine meant scarcity of food, now it has come to mean scarcity of money. The extension of Railways.

(10) Famine sometimes occurs in certain areas because the pressure of population upon such areas is greater than that on the other parts of India. In such cases the remedy lies in the proper distribution of population according to the economic condition of various parts of India Emigration of population from India to other parts of the world reduces the member of mouths to be fed and improves the pecuniary condition of the people. Proper distribution of population.

Sc. 6. How the Government grants famine relief ?

To grant relief to the famine-striken people is one of the most important duties of the Government. Every popular Government must therefore set apart a particular fund every year for insuring against famines. The Government of every province in India has appreciated the necessity of such a fund and in the annual budget a considerable amount is allotted to the item known as the Famime Insurance Grant. Provision is made for a Famine Insurance Grant.

Every province has its own Famine Code which lays down the duties of the Government officers when famine has actually made its appearance.

The policy that is usually adopted by the Government in granting famine relief may be briefly described as follows :—

The different stages of the grant of Famine relief.

When there are signs indicative of the approach of famine the Government tries to help the people by remission of land revenue and by granting loans to the poor agriculturists. It seeks the co-operation of private citizens who have means to render assistance to the poor people and prepares lists of persons who are in urgent need of relief. If the number of these persons increases poor houses are sometimes opened.

Test works

If these preliminary actions cannot remove the distress of the people the test works should be opened in order to test whether famine has manifested itself. The Government should proceed carefully and its policy should neither be too strict not too lenient.

Relief works

When the distress of the people becomes more acute Relief works are thrown open and people are provided with employment at a certain minimum wages. Gratuitous relief is granted to those persons who on account of their inability and caste prejudices cannot get themselves employed in those works.

The policy of granting loan during the rainy season.

When the rains set in the Government adopts a new policy of granting loans to the agriculturists in order to help the latter in their agricultural pursuits. If this is not done there will be failure of crops and the misery of the famine-striken people will never come to an end. The relief-works are closed when the harvest of the next year has provided the distressed people with an independent means.

Although the above principle of granting

relief is sound the Government often fails to discharge its duty on account of the inadequacy of fund. The bureaucratic Government of India is more careful for the maintenance of law and order than for the saving of human lives during famine times.

Sc. 7. Measures taken by the Government for preventing famines.

We have discussed in the preceding section the services that the Government renders in relieving the distress of the famine-striken people when famine has actually broken out. But the duty of the Government does not end there. It should also try its level best to prevent the recurrence of famine by eradicating the causes that are responsible for the outbreak of famine. Let us see what the Government has done in this connection.

The protective measures taken by the Government.

The measures taken by the Government for preventing famines may be described as protective measures. These measures have taken three different forms viz :—(1) the construction of protective railways, (2) the construction of protective irrigation works, (3) the reduction of debts.

Why the extension of the railways is necessary.

The Famine Insurance grant which is provided for in the annual budget of every province is utilised partly in meeting the expenses of granting famine reliefs and partly in the construction of the protective works and in the reduction of debts. The railways assist the prevention of famines by facilitating the transportation of foodstuff from one district to another. The price of food-stuff in the famine-striken area scarcely differs at the present time from that in parts unaffected by famines. The famines of the present day are famines of money and not of food-stuff.

The improvement of the system of irrigation should attract of attention of the Government in as much as it would solve the problem of water supply of the country. The agricultural industry cannot flourish if the supply of water is uncertain. The Government spends some parts of the Famine Insurance grants in the construction of irrigation canals. The fund is also used to reduce or avoid debts. Expenses are incurred in the protective works and in connection with the reduction or avoidance of debts only if money is available after the cost famine relief has been granted. Before 1906 the liability for famine expenditure had lain upon the provinces and the Central Government would contribute only when the provinces had no fund to cope with famine. Then came the Famine Insurance Scheme of 1906 which threw upon the Central Government an obligation to place to the credit of each province a fixed sum on which it could draw in time of need and if this sum proved insufficient further expenditure would be shared equally by the central and provincial Government. In 1917 the famine relief became a divided head, the expenditure being apportioned between the Central and Provincial Government in the proportion of 3 : 1. With the introduction of Reform in 1921 The central budget has been separated from the provincial budget and the administration of famine relief is now a provincial subject. The Provincial Finance Departments are the custodians of Famine Relief Fund.

The necessity of irrigation.

Administration of Famine relief.

The Government has devised other ways of removing the occurrence of famine. It has introduced a system of granting loans to the poor cultivators at a reduced rate of interest. It is always encouraging the establishment of co-operative credit societies which are expected to provide the people with cheap and easy credit.

The granting of Takavi loans.

Efforts should also be made to increase the resisting power of the people. This can be done if the people of India cease to depend absolutely upon agriculture and try to develop manufacturing industries. Again, better system of land revenue may by reducing the share of the state, improve the economic condition of the poor agriculturists.

Increase in resisting power.

Questions and Answers.

1. Explain the character of Indian Famines and estimate their causes. What are, in your opinion the most effective remedies to meet this calamity? (C. U. 1909, See Secs. 3 and 5)

2. Write notes on :—The Famine Insurance Fund. (C. U. 1909, See Sec. 6.)

3. Estimate the following as remedies against famines :—

(a) Increased irrigation,

(b) Increased transport facilities,

(c) Increased industrialism. (C. U. 1912—1913. See Sec. 5)

4. Describe the relative values of Railways and Irrigation Work in India as Famine Protective Works. (C U 1914, See Sec. 7,)

5. Enumerate the various measures which are taken in relieving the affected population (a) in the early stages of a famine (b) in the midst of a famine, (c) after a famine is over. (C U 1915, See Sec. 6)

6. Enumerate the general principles on which famine relief is administered in India. (C. U. 1916, See Sec. 6.)

7. Discuss critically the question whether famines in India are famines of food or famines of money. (C. U 1917, See Sec. 3)

8 What are the principal measures adopted by the Government for relief in the event of famine? Can you suggest any improvement upon the existing methods? (C. U. 1919, See Secs. 6 and 7.)

9. Write brief notes on Famine Insurance Fund. (C. U. 1929, See Sec. 6.)

CHAPTER IX.

DISTRIBUTION.

Sc. 1. What is meant by distribution : what is distributed.

What is distributed is the National Dividend.

It is a branch of the Science of Economics and consists in division of the output among the four agents of production viz., Land, Labour, Capital and Organisation. What is distributed is the National Dividend. This National Dividend is the outcome of contribution made by each of the above agents of production and at the same time is the sole source of payment for each of them. The rent, the wages, the interest and the profit are therefore dependent upon the nature and character of the National Dividend of the country. A rich and prosperous country will yeld higher rents, higher wages, higher interest and higher profits because the National Devidend is a larger figure there.

Sc. 2. The principle of distribution.

The equity in distribution has not yet been achieved in any country.

The labourers generally suffer.

The strict economic theory of distribution consists in distributing the National Dividend among the four agents with reference to their respective productivity, but no country has been in a position to apply this strict theory in the distribution of their National Dividend. Often we will find that the labourers are given less than what they deserve according to their productivity. They cannot freely compete with the capitalist in exacting what is due to them for their contribution. This inquality in distribution has given rise to various movements like Trade Unionism, Communism, Socialism and Bolshevism. All these movements have suc-

ceeded in improving the condition of employment but still there is much to be done in that direction. Again, equitable distribution of wealth among the four agents of production will bring ultimate good to the country by increasing its National Dividend. If on the other hand there is inequitable distribution and the labourers get insufficient wages the National Dividend of the country will decrease gradually to the detriment of each of the agents of production-

Sc. 3. Indian principle of distribution.

Like all other countries India has failed to apply the marginal productivity theory in the distribution of its National Dividend. That there is great inequality of distribution is to be found in the existence of vast masses of poor and illiterate population. The whole population can be divided into three classes. (1) The rich, (2) The middle class and (3) The poor. The first class contains a very small number of people who live in affluence and have all their material wants satisfied. The second class consists of men who are more favourably circumstanced than those belonging to the lowest stratum but whose economic conditions are still far from being satisfactory. The third class consists of people who live miserable lives in a half-starving condition.

The principle of distribution is far from being equitable.

Another feature of the distribution of National Dividend in India is that custom plays a more predominant part than any principle of economic science. The amount of rent, wages, interest or profit is influenced greatly by the customs. The labourers will generally be satisfied if customary wages are paid to them and the conservatism of the people will despise any and every change in share of any agent of production; but such a customary rate of remuneration is not conducive to the economic development of a country. A

Custom plays an important part.

change in circumstances necessitates a change in the amount of wages that are to be paid to the agents of production.

There is lack of organisation among the different agents.

Another peculiar feature of distribution in India is the lack of organisation among the different agents. In every civilised country we will find that every agent has its own organisation, the Capitalists' organisation, the Labourers' union and so on. In these days of economic warfare the importance of such an organisation can never be exaggerated It is because of such organisation that the condition of labourers are better in the western countries than in India In recent times we find in India instances of such organisation among certain classes of labourers but trade unionism is still in its infancy here.

Se. 4. What is economic rent ?

An economic rent is a differential return.

An economic rent is a differential return yielded by land of superior quality over the land that is just on the margin of cultivation In this world we often come across with land that will, by virtue of its inherent qualities and advantageous situation, yield higher returns than other lands When this land of superior quality is to be found in abundance there is no rent; but as the population increases and the Law of Diminishing Return begins to operate recourse will soon be taken to land of the second quality and the land of the first quality which will begin to be cultivated much more intensively will begin to yield rent. This economic rent is measured by the sum total of the surplus returns yielded by the previous doses applied to the land of the first quality over the return from fhe marginal dose invested on that land. The return yielded by the marginal dose on the intensive margin is equal to that yielded by the marginal dose on the extensive margin. The economic rent is

How it is measured.

therefore due to the scarcity in the supply of the land of the first quality as well as to the operation of the Law of Diminishing Return.

Sc. 5. What is the character of Indian rent ?

The factors that influence the amount of rent.

The rent that is paid by the Indian tenants to their landlord or to the state does not represent the true economic rent. The amount of such rent is generally determined by the combined influence of three factors viz custom, competition and legislation The landlord of the permanent settled areas scarcely exacts the whole of what remains after the tenant has been remunerated for the cost of production incurred by him In the temporary settled areas the state takes away only a certain percentage of the economic rent Thus we find that the rent realised from the tenants is generally lower than the economic rent that is yielded by the land.

Custom.

Although the pressure of population upon land and the operation of the Law of Diminishing Return have minimised the influence that custom used to exert in determining the amount of rent in former times yet we cannot altogether ignore its influence The modern tenancy legislations have mainly been based upon customs. The conservative habit of the Indians will vehemently oppose the enhancement of rent even though such an enhancement may be just and equitable.

Competition.

The competition among the tenants to get more pieces of land for cultivation has the effect of increasing the amount of rent paid by them. The rent has therefore increased in those parts where on account of density of population the competition is very keen. Such a competition may be conducive to the interest of the landlord but it affects prejudicially the material condition of the poor tenant.

Legislation.

The state has sometimes fixed the amount of rent that is to be paid by the tenants or by the landlord in the temporary settled area. The rent is generally fixed with reference to the economic rent yielded by the land and therefore varies according to the quality of the land assessed. This rent remains fixed for a period of time. In the permanent settled area the revenue that is to be paid to the state by the landlords on behalf of the tenants remains fixed for all time to come. In these areas the landlords are responsible for paying the revenue to the state. They are allowed to realise rent from the tenants but restrition has been imposed upon the landlords' power of ejectment and enhancement of rent by tenancy legislation.

Sc. 5. The land revenue—whether a tax or rent.

No straight answer is possible.

It assumes the character of tax as well as of rent.

The question with which we are concerned in this section is as to the nature and character of the land revenue paid to the state. Is it a rent or a tax? The answer of this question necessitates a discussion of the nature of the interest taken by the state in the land of the country. The rent can be realised only by the proprietor of the land. If the state assumes the position of a proprietor of all the available lands of the country it is the entiled to the payment of the economic rent. If on the other hand it recognises the private proprietorship of the people the revenue that is paid to the state will take the character of tax proper. In this latter case the state will be said to have imposed a tax upon the proprietors for the agricultural incomes that they enjoy.

The Government of India has always recognised the proprietary rights of the people and has at the same time demanded the payment of certain amount of revenue to the state. The

very recognition of the proprietary rights of the people will go to indicate that the revenue demanded by the state is not a rent proper because rent can only be claimed if the state retains the proprietory interest in the land. It is therefore a tax; but though this conclusion logically follows from the nature and character of the interest taken by the state in the land of the country it will be prudent not to make such a dogmatic statement in view of the fact that the land revenue has some reference to the economic rent of the land. In the permanently settled areas the revenue, on account of its fixity, has come to be only an insignificant part of the true economic rent yielded by the land but in the temporary settled districts the revenue is assessed with reference to the economic rent of the land. All these facts have led Baden Powell to say that land revenue is neither strictly a tax nor a rent but it partakes more of the nature of tax than of rent.

The view of Baden Powell.

Sc. 6. The principal system of land tenure.

There are different kinds of land-tenure prevalent in British India. Broadly speaking. Indian land revenue settlement may be classified under two heads viz:—(1) the permanent Settlement which is in vogue in Bengal, Behar and Orissa, in some parts of Madras, Ajmer-Merwar, Assam and the Benares. (2) the Temporary Settlement which again can be subdivided into three principal classes viz:—(a) Zemindary, (b) Ryotwari, (c) the Village System or the Mahalwari Settlement.

Two principal systems of land-revenue settlement.

By Permanent settlement we mean a system where the state has settled the revenue that is to be paid by the landlord for all time to come. The temporary settlement on the other hand is a settlement which holds good only for a period of time at the lapse of which it will be replaced

Permanent settlement.

by another fresh settlement. The temporary Zemindary settlement is prevalent in the Punjab and in some parts of Bengal. The Talukdars of Oudh are also called Zemindars under the temporary settlement. The Ryotwari settlement consists in a settlement made with the ryots themselves who are individually responsible for the payment of revenue to the state. It is in prevalence in Madras, Bombay and Berar.

The Raiyat wari settlement.

The Mahalwari Settlement consists in a settlement made with the village communities which serve as units of revenue management. The individual proprietors are severally and collectively responsible for the payment of the whole revenue.

The Mahalwari settlement.

Sc. 7. Land Revenue System of Bengal. The system of revenue administration before the Permanent Settlement.

The system that was prevalent before 1793 and its defects

Before the introduction of Permanent Settlement in India the East India Company who obtained the grant of the Dewani from Shah Alam, the titular emperor of Delhi in 1705 used to carry on the administration of land revenue through collecting agencies. These collecting agencies used to oppress the poor tenants in all possible ways and the company had little or no control over them. In 1769 the Company appointed several supervisors to superintend the collection of revenue by their agents but such an official control failed to improve the system of revenue administration. The news of oppression to which the Indian tenants were put at last reached the ears of the Parliament and in 1772 the British Government took the administration of revenue in their own hands and with a view to secure better control over collection made a quinquennial settlement with the farmers offering the highest bid. This system of settlement was replaced by a system

of annual settlement in 1777. These settlements had the effect of dispossessing most of the Zemindars who began to protest such a pernicious system. At length these matters attracted the notice of the Home authorities and Pitt's India Act was passed in 1784 ordering an inquiry to be made into the complaints of the dispossesed Zemindars. The act also advised the Company to make systematic and permanent rules of collection of land-revenue. The Board of Directors had the ingenuity of suggesting a novel system of Decennial settlement to be made with the landholders. Lord Cornwallis came to India in 1786 and after making detailed enquiries into the prevailing system of revenue administration introduced the Decennial settlement in 1790 the rules of which were incorporated with slight modification in the Regulation VIII of 1793. This settlement was made permanent by the proclamation of the 22nd March 1793.

The land-lords were often dispossessed.

The Permanent Settlement was introduced by Lord Cornwallis in 1793.

Sc. 8. The Permanent Settlement.

In the preceding section we have dealt with the circumstances that led to the introduction of Permanent Settlement in India. Let us now discuss the changes that were introduced by such system in the revenue administration of Bengal. Formerly the Zemindars were merely revenue farmers having no vested interest in the land under their charge. Consequently, they could neither alienate it nor raise money on the credit of their tenure. The amount of revenne that they had to pay was not fixed but was subject to variation at the discretion of the Govenment. This was the position of the Zemindars before the introduction of Permanent Settlement. The Regulation 1 of 1793 which introduced for the first time permanent settlement in Bengal brought about a change in the status of the Zemindars. The Zemindars were given an absolute right of proprietorship in the soil sub-

What changes the Permanen settlement brought with it.

The right of proprietorship of the Zemindars was recognised.

The right is transferable.

ject, however, to the payment of the revenue the amount of which was fixed for all time to come. The above regulation also provided that the land in the possession of the Zemindars would be heritable and transferable. The right of proprietorship which was conferred upon the Zemindars also included the rights of mining, fishing and other incorporeal rights. The Zemindars were given the right of collecting rents from the under-tenants and of enhancing such rent subject to such rules and regulations as would be enacted by the Government for safe-guarding the interest of the tenants. Mr. Harrington described the position of Zemindar under the Permanent Settlement thus :—"A land-holder possessing a Zemindari estate which is heritable and transferable by sale, gift or bequest; subject under all conditions to the public assessment fixed upon it; entitled after the payment of such assessment to appopriate any surpuls rents and profits which may be lawfully receivable by him from the under-tenants in his Zemindary or from the cultivation of untenanted lands but subject nevertheless to such rules and restrictions as are already established or may be hereafter enacted by the British Government for securing the rights and privileges of raiyats and other under-tenants of whatever denominations, in their respective tenures and for protecting them against undue exactions or oppression."

Harrington's description of the settlement.

Sc. 9. Objects of the Permanent Settlement.

One of the primary objects for the introduction of Permanent settlement was to improve the agricultural industry with which the prosperity of the country was intimately connected. The people of India were then mainly dependent upon agiculture but on account of the defective system of land tenures prevalent in those days they could not improve the quality of the soil by

the investment of labour and capital. The Zemindars did not take any interest in irrigating the land by the excavation of reservoirs and other artificial works because they had no proprietary interest in the land and could be dispossessed at the expiration of the annual settlement. Under these circumstances faminies began to visit the country frequently and misery of the people knew no bounds The then Government of Bengal appreciated the seriousness of the situation and discovered to their surprise that the root-cause of all these evils was the defective system of revenue administration. They came to realise that all attempts to improve the condition of the people would prove a failure unless an improvement is effected in the system of land-tenure by vesting the proprietory right in the land-owners and by fixing the amount of revenue payable to the Government. Accordingly the Regulation of 1793 was passed and the system of Permanent Settlement was introduced in Bengal

The primary object was to improve the condition.

In addition to the above reason there were several others which led to the intoduction of the Permanent Settlement Let us have a brief summary of these reasons.

(1) The Government of the time felt great difficulty in connection with the payment of heavy civil and military expenditure They were in urgent need of adequate funds for that purpose. The financial condition of the Government could not be improved unless some reform was introduced into the system of land-revenue administration. The introduction of Permanent Settlement was regarded as the only means of overcoming the financial diffiiculty. Mr. S. C. Mitter in his Tagore Law Lecture said that the East India Company would have been reduced to bankruptcy, if they had not adopted the principle of Permanent Settlement.

Government was then in a state of bankruptcy.

The system appeared to be beneficial both to the people and to the Government.

(2) The system was beneficial to the interest of the Government as well as of the people. It ensured a punctual realisation of a fixed amount of revenue to the Government and at the same time vested a permanent right of proprietorship in the Zemindars. The object of the Government was to confer upon the Zemindars the same status as was enjoyed by the English landlords so that the benefits enjoyed by the tenantry in England might be secured for the poor tenants of Bengal.

A political object.

(3) There was a political object which can not be overlooked. The Government thought that the introduction of permanent settlement would lead to the creation of prosperous and loyal subjects. The big Zemindars would remain grateful for ever to the Government for the immense benefit that the Permanent Settlement would bring to them.

Consumption of British goods would probably increase.

(4) The prosperity that would come out of the system of Permanent Settlement would, Lord Cornwallis hoped, increase the consumption of British goods and thereby would give a fillip to the British industries. The Government treasury might also be enriched by the payment of large sums of indirect taxes levied upon foreign commodities which the prosperous people of India might import from foreign countries.

Sc. 10. The effects of the Permanent Settlement.

In this section we shall consider the effect of the Permanent settlement upon the respective rights of the Government, the proprietors of the soil, the Talukdars and lastly of the cultivators.

The Government abdicated its proprietary right but retained certain rights.

(a) *On the Government*:—The Government made over its proprietary right to the Zemindars on the latter's agreement to pay a fixed sum of revenue annually but reserved the right of protecting the cultivators from the oppression of the Zemindars. It also retained the right of assessment on all revenue-free lands held under

invalid titles. The introduction of this system has meant a considerable sacrifice of revenue on the part of the Government. On account of the permanent fixity of the revenue the Government is not in a position to increase the revenue with every rise in the price of the products of the soil; but this loss has been compensated by the benefit that follows from the punctual realisation of fixed amount of revenue and from the avoidance of all costs incidental to a temporary periodical settlement.

A sacrifice of future revenue but there is punctual payment of revenue.

(b) *On the propietors or Zemindars*:—The Permanent settlement has been aptly described as the Magna Charta of the landed aristocracy of Bengal and Behar. It has recognised the propritary right of the Zemindars and has conferred upon them the right of alienation by way of sale, gift or bequest. The revenue that they have to pay annually to the state has been fixed for all time to come. They can sublet the land they own to the cultivators on terms to be determined by mutual agreement but the Government has retained the right of making tenancy laws for safeguarding the interests of the poor tenants. The Rent Act of 1859 and the Bengal Tenancy Act of 1885 are instances of such laws.

The P. S. has been described as a Magna charta.

The rights of the Zemindars.

(c) *On the Talukdars*:—During the time when the Permanent Settlement was introduced into Bengal there were two types of Talukdars. viz:—(1) the independent Talukdars, (2) the dependent Talukdars. The former viz:—the independent Talukdars were given by the Permanent Settlements the same rights and privileges as were conferred upon the Zemindars while the latter class of Talukdars were reduced to the position of mere tenants.

The settlement was made with the independent Talukdars.

(d) *On the cultivators*:—The cultivators of the soils were not given any proprietary interest in the land they cultivated. They were made the tenants of the Zamindars who could realise

The helpless position of the cultivators.

How the Government protected the tenants.

from them any rent they chose, but the poor cultivators were not left absolutely at the mercy of the Zemindars. The Government reserved the right of making laws to regulate the relation between the cultivators and the Zemindars and incorporated in Regulation VIII of 1793 several provisions for the delivery of *Puttas* or leases and for the maintenance of the account of the raiyats by the Kanongoes or the village Patwaris. The object of all these provisions was to safeguard the interest of the tenant against the oppression of the Zemindars but all those provisions failed to assure to the cultivators the possession of their holdings. The Government had therefore to exercise its right of making tenancy laws and accordingly the Rent Act of 1859 was passed. This act also failed to protect adequately the interest of the tenants and had to be replaced by the Bengal Tenancy Act of 1885. The provisions of these acts we shall consider later on.

Sc. 11. Benefits of Permanent Settlement.

Has increased the resisting power of the people.

(1) The introduction of Permanent Settlement in Bengal has materially improved the economic conditions of the people of this province. The amount of revenue payable to the Government does not increase with every rise in the price of the crops and in consequence, the agricultural incomes are higher in Bengal than in the temporary settled districts. This comparative advantage in agriculture has increased the resisting power of the people against famines which, since the introduction of Permanent Settlement, have been rare in Bengal. Bishop Heber says that "in Bengal where independent of its exuberent fertility there is a Permanent Settlement famine is unknown."

The Zemindars are free

(2) The Permanent Settlement has freed the Zemindars from official control and put a stop

to the oppression to which the cultivators were formerly subject when the collection of revenue was in the hands of collecting agents. from official control.

(3) It has avoided the expenses and harassment incidental to the temporary assessment of revenue. Often such assessment is found unjust and inequitable. The expenses and harassment avoided.

(4) The temporary nature of the tenure is a great check upon the investment of labour and capital in land. The Permanent Settlement on the other hand encourages the cultivators to invest as much capital as they can in the soil.

(5) The Permanent Settlement has been a Magna Charta of the landlords of Bengal. It has recognised the proprietary right of the landlords and has thereby given rise to a landed aristocracy in Bengal. These rich people can afford to do good to the community by improving the sanitary condition of the village and making proper arrangement for the elementary education of the villagers. A Magna-charta of the landlords.

(6) This landed aristocracy will come into intimate touch with the tenants who hold land on certain conditions and is expected to look much more to their interest than an apathetic Government. The P. S. will create intimate relation.

Sc. 12. The defects of Permanent Settlement.

(1) One of the most important defects of the Permanent Settlement lay in the fact that it did not recognise the rights of the raiyats but left them absolutely at the mercy of the landlords. The Zemindars could make any and every settlement with them. The Government only reserved the right of the making tenancy laws for safeguarding the interests of the poor tenants. The rights of the tenants were not protected.

(2) The Permanent Settlement has fixed the revenue payable to the Government for all time to come. The involves a sacrifice of future revenue It involves a sacrifice of revenue.

on the part of the Government. Lord Cornwallis seemed to have thought that there could not be any security of the title to the estate unless the revenue payble to the Government was fixed. Whatever might be the reason for the introduction of this system it cannot be gainsaid that from the standpoint of revenue the policy is unsound in principle.

It is responsible for industrial backwardness.

(3) The compartive advantage that the people of Bengal enjoys on account of the introduction of Permanent Settlement has been the cause of its industrial backwardness. The temporary settled areas like Bombay has flourished in the sphere of industry while in Bengal the industries have made little or no progress.

The Zemindar's prosperity has not been a blessing.

(4) The Permanent Settlement has no doubt increased the prosperity of the Zemindars but this increased prosperity has not proved a blessing to the country The Zemindars generally spend their riches for the satisfaction of their personal wants and do not even think of improving the conditions of the villages in which they live. The tenants are not cordially dealt with. They are harassed and illtreated in every possible way.

It has not helped the creation of loyal subjects

(5) The Permanent Settlement has not led to the creation of intelligent and loyal citizens. The Zemindars have independent resources to depend upon and are generally found to be men of public spirit. They do not like to support the Government in its attempt to realise its own ends to the sacrifice of the real interest of the people of this country.

Sc. 13. Permanent settled areas.

Areas under permanent settlement.

Bengal is not the only province where the system of Permanent Settlement is in vogue. There are other parts of India where this system is in prevalence. Some parts of Behar and Orissa

and of the Madras Presidency are under this system of land-tenure. This system has also been introduced in some parts of Assam and in Ajmer-Marwar. All these parts taken together represent near about one-third of the total area of British India.

Sc. 14. Land revenue system of Bombay.

The state of Raiyatwari Settlement.

The raiyatwari settlement is prevalent in Bombay. This system was introduced at first in the Inderpur district of Bombay on the basis of the reports submitted by Lord Goldsmid and others. As this system proved successful in that district, it was later on extended to other parts of Bombay. This settlement is made periodically with the tenants themselves who are responsible for the payment of revenue to the Government.

Settlement generally holds good for 30 years.

The revenue of the state is determined by the settlement officer with reference to the qualities of land and the facilities that they enjoy for the marketing of their products The revenue therefore varies with the different grades of land. Every settlement generally holds good for 30 years and the revenue remains fixed for this period of time. After the lapse of this period of settlement a re-settlement is made and during the time of this re settlement the revenue can be enhanced. There is no limit to the enhancement of the revenue payable to the state. The settlement-officer may assess the land in such a way as to take away the whole rental of the land.

Classification of tenure, three important classes.

The land tenures of Bombay may be classified under three groups :—(a) the Survey tenure, (b) the Inam tenure (c) Miscellaneous tenures. The first class viz the Survey Tenure includes both the unrestricted tenures and restricted tenures. The unrestricted tenures mean tenures which do not impose any restriction on the right of alienation whereas the restricted tenures impose such re striction.

The Inam tenure again may be subdivided into four classes:—(a) the Political, (b) the Religious, (c) Personal, (d) Service.

Sc. 15. The Land-revenue system of the Punjab.

Mahalwari system of the Punjab.

The land-revenue system of the Punjab is known technically as the Mahalwari system. The characteristic of this system lies in the fact the settlement is made not with the individual tenants but a village community. Each individual holder of the lands of the village has to contribute his quota to the village headman who ultimately pays the whole revenue payable to the Government. The whole village is divided into a large number of holdings and a certain fixed amount of revenue is to be paid by the occupant of each of these holdings. The occupants of these holdings are jointly and severally responsible for the payment of the whole sum due to the Government. Some times the whole land is not divided into a number of separate holdings. The proprietary interest of an individual is then represented by a certain specified share in the village. This tenure is technically known as the Pattidari. There are few other kinds of minor tenures which are left out of discussion.

Revenue is paid through the village headman.

Joint and several liability.

The period of settlement generally lasts for 25 years.

Sc. 16. The Land revenue system of Madras.

Raiyatwari system of Madras. The Raiyts are individually responsible.

The system is technically known as the Raiyatwari system. The settlement is made with the individual tenants who are ultimately responsible for the payment of revenue. The whole of Madras is not, however, under this system of land tenure. There are certain parts of this province where permanent settlement is in vogue. The assessment of revenue is made every 30 years and the principle on which it is

based is sound. The settlement officer takes into account the productive capacity of the land and the revenue is fixed with reference to the average price of crops in several years preceding the settlement. There is no limit to the enhancement of revenue The recommendation made by Sir Charles Wood in this respect has not been given effect to

Sc. 17. The Land revenue system of the United Provinces.

Notwithstanding all hopes that were held out to these provinces by the Regulation of 1795 regarding the introduction of Permanent Settlement the Court of Directors finally decided in 1822 to introduce temporary Settlement into these provinces and fixed the amount of revenue at 83 per cent of the gross rental of land The rigorous settlement had its worst effect upon the material condition of the people and Government had to lower its demand to 66 per cent of the rental in 1833 Then came the Saharanpur Rule of 1855 which reduced the revenue of the state to 50 per cent of the net produce of the soil

The revenue fixed at 83 P. C. of the gross rental.

The Saharanpur Rule reduced it to 50 P. C. of the net produce.

The system of land-revenue prevalent in the United Provinces is technically known as the Mahalwari system The settlement is made with the village community and the invididual tenants are jointly and severally responsible for the payment of the whole revenue to the Government. It should be noted however, that this system does not prevail in Oudh. The Government could not ignore the rights of the Talukdars and consequently a settlement was made with them. The Talukdars are entitled to sublet the land in their possession to tenants on any terms chosen by them The Government undertook to protect the interest of these tenants and regulated the relation between the Talukdars and their tenants by passing the Oudh Rent Act of 1861.

The System is known as Mahalwari.

Sc. 18. The Land-revenue system of the Central Provinces.

Malguzari Settlement. The Act of 1883

The sytem of Settlement prevalant in these provinces is known technically as the Malguzari Settlement. This settlement was at first made with the revenue farmers for a period of 30 years but this was afterwards replaced by the Raytwari Settlement. The Tenancy Act of 1883 has conferred upon the tenants the absolute right of transferring the land in their possession and of enjoying it for a certain period without the enhancement of rent. The period of Settlement has been reduced to 20 years and the rate of assessment has been raised.

Sc. 19. The Arguments For and Against the Reversal of the Permanent Settlements.

(1) Enjoyment of unearned increment by the people while the revenue remained fixed for ever.

Arguments are not wanting in favour of the reversal of the Permanent Settlement. The people of the districts where this system is in prevalence are enjoying an unearned increment to the extent of 1600 lakhs of rupees while the revenue of the Government remains fixed for ever. Again, the social and the political objects which led to the conclusion of the Permanent Settlement have not been fulfilled. The Zemindars are neither loyal to the Government nor do they treat the tenants with kindness and sympathy. The economic progress of the Permanent Settled areas is being hampered on account of the absolute dependence on agriculture. All these considerations lead to the question of replacing the sytem of Permanent Settlement by one of temporary settlement; but there are arguments that can be advanced against the reversal of the system.

(2) Social and political objects not fulfilled.

(3) Industrial progress hampered.

(1) A breach of solemn pledge.

The most important of these agruments is that such a reversal will mean a breach of solemn pledge of the Government. The Government

introduced this system and promised to make this system permanent. How can the Government abolish this system without being guilty of a breach of promise?

Secondly, the reversal of this system will have the effect of taking away the right of property which has once been recognised by the Government. Thirdly, it will deprive the people of the fruits of investment. The limitation and permanent fixity of the Government revenue have led to the investment of labour and capital in land and now if the system is reversed and the revenue is assessed with reference to the productivity of the land the Government will thereby take away the return of this investment without giving any compensation to the people.

(2) The right of property will be taken away.

(3) Fruits of investment taken away.

Fourthly, the replacement of Permanent Settlement by a system of Temporary Settlement will lead to a reduction in the value of land with the result that the proprietors who have purchased lands at exorbitant price will incur a heavy loss. Again experience tells us that the Khas Mahal system is much more oppressive than the Zemindary system.

(4) Value of land will be reduced.

Sc. 20. Some Terms defined.

(1) *Estate*: There are lands of various descriptions. Some are known as revenue-paying lands while others as revenue-free lands. Besides these two types there are Khas Mahals. The collectors of every district have to prepare and maintain registers of each these kinds of land. An estate means so much of any of these lands as are included under one entry in one of these registers. Independent Taluks that pay revenue direct to the Government are also termed as estates but the subordinate Taluks such as Shikimi Taluks and Patni are not estates.

The Govt. keeps registers of estates.

(2) *Khas mahal*:—When the Government is the proprietor of an estate, the estate is techni-

cally termed as Khas mahal. Such proprietorship of the Government is to be found in the case of waste land or an island in the midst of a navigable river. Again, where the proprietor of an estate is not ready to accept the term of settlement the estate is held khas by the Government. These khas possessions are sometimes managed by the Government through its servants and sometimes let out in farm.

When land is held in Khas possession

(3) *Tenant* —Tenant means a person who holds land under another person and is liable to pay rent for that land to the latter. It is this liability to pay rent that establishes the relation of land-lord and tenant.

Different classes of tenants—(a) tenure holder (b) raiyat (c) under raiyat.

A tenant may be either a tenure-holder, raiyat or an under-raiyat Let us note the distinctive characteristics of each of these three classes of tenants A tenure-holder denotes primarily a person who has acquired from a proprietor or a superior tenure-holder lands for the purpose of collecting rents or for bringing it under cultivation by establishing tenants on it and includes persons claiming under succession to the tenure-holder

A raiyat means a person who has acquired from the proprietor or under holder the right to hold land for the purpose of cultivating it by his own self or by the members of his family or by labourers hired for the purpose and includes the successor of the original raiyat

An under-raiyat is a person who holds land under a raiyat irrespective of the purpose for which the land is held.

How acquired under the act of 1869 and that of 1885.

(4) *Occupancy raiyats* —An occupancy raiyat is a raiyat who has the privilege of continuing to hold the land in which a right of occupancy has been acquired by him either by virtue of an enactment or otherwise, as long as the rent legally demandable is paid. Several enactments

of Bengal have conferred upon the raiyat the right of occupancy. As for example, the Act X of 1859 and Act VIII of 1869 provided as follows: "Every raiyat who shall have cultivated or held land for a period of 12 years shall have a right of occupancy in land so cultivated or held whether it was held under a pattah or not so long as he pays the rent payable on account of the same." According to the Bengal Tenancy Act a person who becomes the settled raiyat of a village has a right of occupancy in every piece of land that he holds "for agricultural and horticultural purposes."

The rent of an occupancy holder can be raised either by registered contract or by suit. In the former case the rate of enchancement cannot exceed 2 as in the rupee and the rent once enhanced cannot be enhanced again within 15 years. In the latter case enhancement can be made under the following conditions—(1) The rise in prices (2) The prevailing rate being higher (3) Fluvial action causing improvement.

Characteristic of Patnitaluks—a perpetual lease at a fixed rent.

(5) *The Patni Taluks*.—The word Patni means what is settled in perpetuity at a fixed rent. Such taluks came into existence immediately after the Government abdicated its position as an exclusive proprietor of the soil by the introduction of permanent settlement in Bengal. The Zemindars according to the above settlement were under obligation to pay a fixed amount of rent annually to the Government. They, therefore, in order to avoid the risk of non-payment began to lease out their Zemindary to tenure holders in perpetuity at a fixed rate of rent. This practice of leasing out land led to the existence of the Patni tenures. Such tenures imply a heriditary and transferable interest in land subject to Reg. VIII of 1899 for arrears of rent. A Patni taluk is not liable to be cancelled on account of non-payment of rent but it will, for such default be brought to sale by a public

It is a heriditary and transferable interest subject to sale for arrears of rent.

auction and the defaulting patnidar will be entitled to any surplus proceeds beyond the arrears of rent due thereupon. Another characteristic of such taluk lies in the fact that it is liable to annulment on the sale of the parental estate for arrears of revenue unless protected by common or special registry. The interest of the Government has thus been protected. The tenants whose interest will be annulled if the Patni is sold for arrears of rent have been given by the Patni Regulation a right to avoid such sale by depositing the arrears.

Badshahi and non-Badshahi grants.

(6) *Lakhraj lands*:—Lakhraj means revenue free grants These grants are of two kinds:—(i) Badshahi and (ii) non-Badshahi. The former includes grants made by the Sovereigns for the maintenance of pious men or of religious and charitable institutions These Badshahi grants again are of various kinds viz:—(i) Jaigirs or grants continued so long as the grantee performed his duties while there were others which were life-grants (ii) Nazarat or grants for the support of Masjids (iii) Aima and Madadmash which mean grants for the support of the learned and religious Mahomedans. (iv) Altamga or royal free gift The East India Company recognised the validity of all Badshahi grants made previous to the 12th August 1765 by the Regulation 37 of 1793.

What kinds of these grants were recognised as valid.

The non-Badshahi lakhraj includes grants that were made to the Zemindars and Officers of the Government appointed to supervise the collection of revenue. The Regulation 19 of 1793 provided that such grants made prior to the 12th August 1765 would be regarded as valid if the grantees had got possession and the land had not been subsequently charged with revenue, but with regard to grants made after the 12th August 1765 but before the 1st December 1790 the Regulation of 1793 was not ready to recog-

nise their validity unless the grants had been made or notified by the Governmet.

6. (a) Wakf lands mean and include those lands which have been permanently dedicated by a person professing the Musalman faith for any purpose recognised by the Musalman Law as religious, pious, or charitable.

(7) *Abwab*:—It is the plural form of 'bab' which means head or an item. Abwab, therefore means miscellaneous items of taxation. The Mugal rulers used to levy such additional taxes in a fixed proportion to the original jama or revenue whenever they required additional money to meet their expenses. Let us have a brief summary of some of these abwabs:—The Chauth Maratta was an abwab imposed upon the Zemindars in order that the emperor might be in a position to pay a tribute of one-fourth of the jama to the Marhattas; abwab radhahi was a tax imposed for the repairs of the roads; abwab Faujdari was a fee for the support of the Police Magistrate and the administration of criminal justice. These abwabs were imposed upon the Zemindars at the first instance but ultimately the incidence of this taxation was borne by the poor raiyats.

It means miscellaneous items of taxation.

Different kinds of abwabs.

(8) *Jamabandi*:—'Jamabandi' means annual settlement which has to be made with the tenants under the rayotwari system Under such a system the tenants have right to relinquish certain parts of their holding while retaining the other parts. This necessitates a revision of the Pattas that the tenants hold and a determination of the amount of revenue that is to be paid by the tenants. This process of annually revising the Pattas and determining the amount of revenue payable to the Government is technically known as Jamabandi.

The tenants have a right to relinquish certain part of their holding.

(9) *Record of rights*:—We come across with such an expression when we study the procedure

How records of rights are framed.

that is adopted in settling the amount of revenue payable by each holding. The first stage of settlement consists in framing a survey-map of each separate holding or estate. At the same time a record of rights is prepared wherein is embodied an account of all rents paid and of the respective rights of landlords and tenants over the fields, and of buildings, trees and wells that exist in the area included in the map. At least three copies of such record of rights are to be prepared. One of such copies is given to the proprietor, the second copy is kept in the District Court house and a third one is preserved in the Tashil House of the Subdivision. The importance of such a record-of-rights lies in the fact that it makes the process of re-assessment easier and cheaper. Again, when any dispute arises with regard to the proprietorship of particular piece of land, the dispute can be easily settled with reference to this record-of-rights.

The utility of such records of rights.

(10) *Talukdars* :—Talukdars are persons who hold taluks. Now what is a Taluk? The term is derived from an Arabic word 'alak' which means a dependance. Taluks are of two different kinds :—(i) Independent taluks, and Dependent Taluks. The former include those which pay revenue direct to the Government and are analogous to the Zemindari estates. The independent existence of these taluks was recognised when the Permanent Settlement was introduced into Bengal in 1793. The latter kind of taluks viz., the dependent taluks do not pay revenue except through a Zemindar or other proprietor of the estate. These taluks therefore cannot be properly designated as estates in the true sense of the term. They are merely tenures.

Two different kinds of taluks—the dependent and the independent.

(11) *Cadastral Survey* :—Before the assessment of revenue has been made the Settlement Officer must have a map prepared wherein every holding or estate with its boundaries is incorporated.

A survey during the assessment of revenue

This map is the outcome of a general survey and contains not only each seperate holding but also buildings, wells and trees that exist therein. After this map has been prepared a copy of it is sent to the proprietor of the estate and other copies are placed in the District Office as well as in the Sub-Divisional Office. This map renders great service to the community and is frequently referred to by the Civil Courts when boundary disputes crop up before them.

It is a peculiar kind of tenures.

(12) *Utbandi tenures*:—These are customary tenures; the rent is paid every year with reference to the amount of land cultivated and the nature of the crops produced. This is a method of letting out land every year and the amount of land cultivated one year is not necessarily the same as that cultivated next year. The Bengal Tenancy Act does not permit the acquisition of occupancy right in this tenure except by holding the land continuously for twelve years.

A permanent hereditary tenure at a fixed rent

(13) *Makarari tenure*:—The term 'makarari' is used with the term mourasi and these two terms together carry the sense of a permanent hereditary tenure at a fixed rent. These tenures are heritable and in the absence of heirs escheat to the crown. These tenures have certain peculiar characteristics which distinguish them from similar other tenures. They can be subject to imposition of abwabs and other illegal cesses but the rate of interest chargeable on arrears of rent cannot exceed 12, P. C.

Sc. 21. The Process of Settlement.

The right to assess follows from state ownership of all lands.

By Settlement we mean the fixing of revenue by the State. If we study the ancient history of India we will find that the King of India used to take away a share of the gross produce of the soil as a remuneration for the services that they rendered to the community. But the British

rule in India enunciates a quite separate principle in justification of the revenue that it demands from the people. It starts with the idea of state-ownership of all soils of the country and demands as of right a certain amount of revenue partly for recognising private property in soil and partly for the exhaustion effected by use.

Assessment based on net assets

The method of assessment is also different. It is based not on the gross produce but on the net prodce or assets of the land; and there is no gainsaying the fact that this method of assessment is more beneficial to the interest of the community than the primitive method based on gross produce Again, the present method is more scientific in as much as regular maps and records are prepared and preserved and re-assessment of revenue can be easily and conveniently made. The Settlement remains in force for a period of time as specified during the time of Settlement and the revenue remains unaltered till the expiry of the term On the expiration of the term of Settlement the question of re-assessment comes in and the revenue can be enhanced on one or other of the following causes;— 1) rise in prices of staple crops, (2) increased productivity of the soil due to the improvements effected by the State, (3) increase in areas of land under cultivation

The method is more scientific.

The assessment and enhancement of revenue

Settlement in Permanent settled districts.

In permanent settled districts the Settlement has been made with the Zamindars and other actual proprietors of the soil and the revenue has been fixed for ever. In temporary settled areas the Settlement may be made with the Zamindars and assessment which is based on the ascertained rent remains unaltered for the terms of Settlement. In other areas Settlement is made with the raiyats individually for each seperate holding and the revenue payable varies with the extension of cultivation.

Sc. 22. Advantages and Disadvantages of P. S, as compared with that of Raiyatwari Settlement.

We shall deal with the question from the standpoint of the State as well as the people with whom Settlement has been made.

(i) *On the State*—The introduction of Permanent Settlement has made the payment of revenue more certain and regular. The East India Company had to suffer a great deal on account of the uncertainty and irregularity associated with the collection of revenue. The expenditure of the government could not be adequately adjusted to the income derived from various sources of revenue. Again, the increase in expenditure of the state aggravated the situation and impressed upon the Government the necessity of fixed sources of revenue. It has been said by Mr. S C. Mitter that the company would have been reduced to the position of a bankrupt had not the land-revenue been fixed at that time. The introduction of Permanent Settlement was therefore a matter of necessity.

The payment of revenue was made certain and regular

The Permanent settlement was a matter of necessity.

(2) The State has also been benefited because it has not to bear the incidental expenses of settlement every time the terms of settlement expire.

(3) The regular payment of revenue has been secured by the provisions made for the sale of the estate if the revenue remains unpaid after the latest day of payment.

In the raiyatwari settled areas the state can not derive the advantages mentioned above, the State has to incur heavy expenses in connection with the settlement of revenues and inspite of its utmost efforts the State is deprived of its legitimate share on account of the inherent tendency among people to lower the revenue by bribery and other unfair means.

The disadvantages of raiyatwari settlement

Government gain under raiyatwari settlement.

The Raiyatwari Settlement however has one important advantage over Permanent Settlement. This is due to the fact that the settlement is for temporary period and gives the State an opportunity for enhancing the revenue whenever the circumstances are such as to permit enhancement. Then the raiyatwari settlement is productive of higher revenue to the state while the Permanent Settlement involves a sacrifice of future revenue by the state.

The right conferred upon the people.

(ii) *On the people*:—The introduction of Permanent settlement proceeded from an economic motive. It was introduced not solely for the purpose of securing a fixed revenue to the state but it had for its object the extension of cultivatiion and the improvement in the method of production by the investment of sufficient quantity of labour and capital. The Zemindars and other actual proprietors with whom permanent settlement has been made have been given the free right of alienation by sale, gift or otherwise subject however to the payment of fixed amount of revenue annually. The state has abdicated its position as a proprietor of the soil and remains satisfied with an amount of revenue that remains fixed for all time to come. This fixity of the state demands has the effect of stimulating people in increasing the productivity of the soil because they enjoy the surplus which is left after the fixed revenue has been paid. The state will not take away the fruits of the investment of labour and capital.

The fixty of state demands and its effect.

People are free from constant vexation

Again, the Permanent Settlement has by fixing revenue for ever made the people free from vexation due to the constant settlement of revenue and the cultivation of land is not neglected with a view to induce the Settlement-officer to believe that the land is less productive and deserves an assessment on that basis.

The Permanent Settlement however did not

make any distinct provision whereby the interest of the tenants could be adequately protected. The Government anticipated the evil that might come out of the system and reserved to itself the right of making tenancy laws to regulate the relationship between landlords and tenants. Before such tenancy laws were passed the Zemindars availed themselves of the opportunity of oppressing their tenants in every possible manner. In the raiyatwari systems the raiyats are directly under the state which is their immediate landlord and hence there is little chance of oppression. But the raiyatwari system has been responsible for certain other evils. The raiyats cannot enjoy the fruits of their own labour and capital and the increase in productivity is often followed by an enhancement of revenue payable to the state. This usurpation on the part of state has the effect of discouraging investment of labour and capital in land and the economic condition of the people has been anything but satisfactory.

The tenants were left unprotected.

How the ryots are loser under the raiyatwary system.

The raiyats under the raiyatwari system are not in a very happy condition; though it is expected that they should be favourably dealt with when the state itself is their landlord yet they have been subject to serious oppression. The assessment of revenue has been made to depend upon the arbitrary decisions of Settlement-officer and there is no definite principle to govern the enhancement of revenue.

Mis rable condition of the raiyats

Sc. 23. The Rent is a British creation.

The rent that is paid by the tenants to their landlords cannot strictly represent the economic rent in as much as it does not cover the whole surplus which issues from a differential advantage. This conception of rent cannot be found in the ancient text books of India although the germ of rent was not altogether absent in the

The conception of rent as found in ancient texts.

A true competitive rent is the outcome of British rule.

village communities of the Hindus. The rent of ancient India was mainly governed by custom and there was little or no element competition therein. The true competitive rent came into existence only during the British period. The policy of British Government has been from the very beginning directed to the creation of rent-receivers. These rent-receivers have been authorised to enhance the rent payable to them with certain limitation. We cannot however say that the rent of India is influenced solely by competition and that there is no limit to the enhancement of rent. In fact the rent that prevails in Bengal today is the resultant of several contending forces such as custom, competition and legislation. The Government has intervened and restricted the free play of competition with a view to protect the interest of the tenants. In this connection it will be interesting to note the observation of Rent-commissioners which runs as follows—"Rent can only be settled by custom, competition or by law; and in as much as on account of the disturbing element of the state laws custom had not settled rent and in as much as the ruling power has a right to determine the rent payable by the ryot to the Zemindar the Government ought to determine what share of the produce would be fair for the former to recover from the latter."

The rent is the resultant of the contending forces.

Sc. 24. The Tenancy Legislation.

To protect the poor and helpless peasants from the oppression of their landlords every Government has to make certain laws. The Government of India has been forced to follow the same course and we find today a series of tenancy laws regulating the relationship between landlords and tenants. In the present section we shall have a brief outline of the various tenancy laws that have been passed in India.

In Bengal the Government in exercise of the solemn right that it reserved to itself at the time of Permanent settlement passed for the first time the Rent Act of 1859; but the act failed to improve the condition of the tenant very much because it did not provide for any means whereby the tenants could enforce their right of occupancy as against their landlord; the necessity for the protection of the tenants by legislation remained as keen as ever and ultimately led to the enactment of the Bengal Tenancy Act of 1885. This Act has divided the tenants into five principal groups viz—(1) Permanent Tenure holder, (2) Ryot at a fixed rate, (3) Occupancy ryots, (4) Non-occupancy ryots and (5) Under-ryots. The Act has laid down the respective rules of ejectment and of enhancement of rent. The tenants can be ejected only under certain conditions and the landlord's right of enhancing rent has been strictly restricted. The Act prescribes the manner in which occupancy right can be acquired by the tenants. Such tenants cannot be ejected for non-payment of rent but their holding can be sold out for arrears. The rent payable by such ryots can be enhanced only in two ways (i) by contract and (ii) by suit. In the first case the enhancement can be made only at an interval of 15 years and cannot exceed 2 as in the rupee. The enhancement of rent by suit is possible only under certain specific conditions. The act has forbidden the imposition of abwabs and illegal cesses and the rate of interest chargeable on arrears has been restricted to $12\frac{1}{2}$ p. c. The Bengal Tenancy Act of 1885 has been ammended by Act 3 of 1898 and Act 1 (Bengal of 1907.

The Rent Act of 1859 and why it failed in its object.

The Bengal Tenancy Act of 1885 the classification of tenants into five groups.

The provisions of this act.

The former amending act made provision for the preparation of a record of rights so that a fair and equitable rent might be settled for all classes of tenants and the latter act was passed

The amendment of the act.

with a view to facilitate the collection of rents by the Zeminders and at the same time to prevent enhancement of rent by collusive compromise.

The Bengal Tenancy Amendment Act of 1928 The right of transfer of occupancy holding was recognised

The act of 1885 has been amended by the Act iv of 1928. By this amending act material charges have taken place in the incidents of the raiyat at fixed rates, occupancy raiyat and under-raiyats. The occupancy right have been made transferable in the same manner and to the same extent as other immoveable property. The landlords have been given a right to get transfer fee or to purchase the land on payment of compensation at the rate of 10 per cent of the consideration money. The position of the under-raiyat has been considerably improved. The under-raiyats have been divided into three classes :—(1) The under-raiyats with occupancy rights have been given all the rights of an occupancy raiyat except the right of transfer, and the right to have their interest protected in case of sale of the landlord's interest for arears of revenue, (2) under-raiyats in possession for a continuous period of 12 years or having homestead and those who have been admitted in a document by their landlord to have permanent and heritable right—these under-raiyats are liable to ejectment on the ground of failure to pay arrear of rent and also on the ground on which an occupancy raiyat is liable to ejectment; (3) all other under-raiyats are liable to ejectment on the additional ground of the expiry of the term of lease and when there is no written lease by one year's notice provided that the landlord requires the land for his homestead or for cultivation. The act has given certain right to co-sharer landlords which according to the old act they could not enjoy. The rate of interest can in no case exceed 12½ per cent.; there are other changes of minor importance.

A keen sense of necessity has led to the enactment of similar tenancy laws in other provinces. We shall briefly discuss the provisions of some of those enactments. In Agra we find two acts viz, the Agra Provinces Rent Act of 1881 and the Agra Tenancy Act 1901. The former act extended in a measure the provisions of the Bengal Rent Act of 1859. It conferred on the tenants occupancy rights on certain conditions The right could be acquired by twelve years' possession. The act of 1901 modified the stringent rule for the acquisition of occupancy right by providing that a break for less than or lease for less than seven years could not prevent the accrual of such right

The Agra Provinces Rent Act of 1881 and the Agra Tenancy Act of 1901.

The act of 1901 was modified by the Agra Tenancy Act of 1926 This act added to the five classes of tenants two other classes and brought about considerable changes in the relation between landlord and tenant The right of occupancy arises according to this act when a tenant has held the same continuously for a period of twelve years The exproprietary-tenants are superior to occupancy raiyats in this respect that their rent is $12\frac{1}{2}$ per cent less than the rate prescribed for occupancy raiyats Tenants who do not fall in to any one of the following categories viz (1) permanent tenure-holder, (2) fixed-rate-raiyat, (3) exproprietary tenant, (4) occupancy tenants but who were tenants at the commencement of the act were classed as statutory raiyats and were given a life-tenancy.

Agra Tenancy Act of 1926

In Madras we find the Madras Estates Land Act of 1908. This act now regulates the status of the cultivators. They have been given the right of occupancy and cannot be evicted so long as they pay rent regularly. The enhancement of rent is possible under this act only on a certain specific condition. The act has also

The Madras Estates Land Act of 1908.

provided for the preparation of record-of-rights so that the tenants may have their rights well-settled and well-defined.

The Punjab Land Alienation Act of 1900.

In the Punjab the tenants' rights have been regulated by law. The occupancy ryots who are as numerous as to absorb near about ⅓ of the whole tenant class have been protected from arbitrary ejectment and enhancement of rent. Again, the Punjab Land Alienation Act of 1900 has been passed with a view to restrict the passing away of lands from the hands of tenants to that of the money-lenders.

The Dekkhan Agriculturists Relief Act of 1879 The Bombay Land Revenue Code Amendment Act of 1901.

In Bombay there are two important enactments viz, (i) the Dekkhan Agriculturist Relief Act of 1879 and (ii) the Bombay Land Revenue Code Amendment Act of 1901. The former act was passed with a view to protect the tenant class from the oppression of the money-lenders who had an inherent tendency of depriving the poor agriculturists of their humble holdings and provided for the settlement of claims. The latter act gave birth to a new kind of tenure having the characteristic of non-transferability.

In the Central Provinces the rights of the tenants have been protected by the Tenancy Act of 1883. The Act has provided for the fixity of rent during the continuance of the term of settlement and has taken away the right of ejectment in cases where the tenants happen to have absolute right of occupancy.

The Saharanpur Rules of 1855.

The Saharanpur Rules of 1855 reduced the land revenue demand to ½ of the net asset.

These rules were enuncicted for the first time when the revenue of the Saharanpur district in N. W. P. was re-settled. The Government of the country used to demand on previous occasions as much as ⅔ of the net produce of the soil. This led to misery and hardship of the tenant class. The grievances of the poor tenants

were at length appreciated by the ruling authorities and they, out of compassion, reduced their demands to a maximum of one-half of the net asset. These rules indicate in a measure the seriousness with which the Government has taken up the task of ameliorating the distress of the tenant class of Northern India.

Questions and Answers.

1. Write explanatory notes on Abwab, Jamabandi, Lakhraj and the Saharanpur Rules. (See Secs. 20 and 24. C. U. 1909.)

2. Describe briefly the more important land revenue systems of British India. (C. U. 1909 —See Sec. 6.)

3. Write a critical note on the nature of land revenue in India; what do you know of the controversy regarding land revenue as being of the nature of a tax or rent? (C. U. 1909.—See Sec 5.)

4 Write notes on Jagir, the Saharanpur Rules and the Raiytwari village. (C. U 1910—See Secs. 20, 24, 14.)

5. What do you know of the following:—

The Punjab Land Alienation Act, The Bengal Tenancy Act, The Rent Act of 1859. (C. U. 1911-12.—See Sec. 24.)

6. State briefly the arguments for and against the Permanent Settlement. (C. U. 1913.—See Secs. 11 and 12.)

7. Define a Zemindari and Ryotwari Settlement. Define also net asset. What are the values and essentials of the Cadastral Record. (C. U. 1913 —See Secs. 6 and 20.)

8. State the principal reasons which induced Lord Cornwallis to introduce the Permanent Settlement into Bengal. Justify or controvert those reasons under the present circumstances. (C. U. 1915.—See Secs. 9, 11 and 12.)

9. Discuss the Khas and Zemindary system of land settlement. Lord Cornwallis discarded the Khas system in favour of the Zemindary system; while the present-day administrators prefer the former to the latter. Give reasons which have led to its change of policy. (C. U. 1916-1918.—See Sec. 12.)

10. What is meant by record-of-rights Indicate the usefulness of the maintenance of a record-of-rights. (C. U. 1916.—See Sec. 20.)

11. Explain the necessity and importance of each of the main grounds on which increase of land revenue at the time of re-settlement is generally permitted. Indicate the various steps in the process of land revenue settlement. (C. U. 1916.—See Sec. 21.)

12. What are the main features of Permanent Settlement? (C. U. 1917.—See Sec. 8.)

13. Describe the general principle underlying the system of Patni tenures in Bengal; and examine their social and economic effect. (C. U. 1917.—See Sec. 20.)

14. Carefully explain what is meant by a Revenue Settlement in Bengal. How is it carried out? Under what condition can the rent of an occupancy holder in Bengal be raised. (C. U. 1919. See Sec. 20.)

15. Explain as fully as you can the following terms :—

(i) Patwanidar, (ii) Talukdar, (iii) Waqf lands, (iv) Abwab, (v) Utbandi tenures, (vi) Khas mahal. (C. U. 1919.—Seo Sec. 2 .)

16. Compare the advantages and disadvantages of the Permanent Settlement with the Raiyatwari system of Land Revenue. (C. U. 1919—See Sec. 22.)

17. Characterize the principal types of land tenure in India and indicate the economic bearing. (C. U. 1920.—See Secs. 6, 8, 10, 14 and 15)

18. Give a short historical account of the Tenancy legislation in Bengal (C. U. 1920-22.—See Sec. 24)

19. Argue the case of the reversal of the Permanent Settlement of land revenue in Bengal. (C. U. 1924—See Sec. 19)

20. Describe the main features of Tenancy Legislation in India. (C. U. 1925—See Sec. 24)

21. Land revenue is and has been the main-stay of Indian finance. Discuss this statement and indicate the method and principles by which land revenue is assessed in India. (C. U. 1926—See Sec. 21.)

22. One of the object of the Permanent Settlement, it was argued was to supply capital to the land. Show how far it has served that purpose. Would you justify the continuance of the permanent settlement in the present economic and financial condition of Bengal? Give reasons for your answer. (C. U. 1929.—See 11 (4), Sec. 22 (ii) Sec. 19)

23. State the salient features of the Permanent and temporary Settlements in India and discuss their merits and defects. (C. U. 1931. See Secs. 6 also Secs. 11 and 12.)

24. Is the land revenue in India a Tax or a rent? Give reasons for your answer. In the event of your holding that it is rent can you justify the theory of state-landlordism in India which it would necessarily imply? (C. U. 1931.—Seo Sec. 5.)

CHAPTER X.

DISTRIBUTION—(*Continued*).

Interest.

Sc. 1 What is Interest.

Interest is reward for postponement of enjoyment.

In distribution we are concerned with the respective remuneration due to each of the four agents of production viz land, labour, capital and organisation We have already discussed the character of rent which is to be paid to the landlord for the land that is taken for cultivation. We shall now discuss the nature and character of interest which is a remuneration paid to the capitalist for the amount of capital lent Interest has been described as a reward for abstinence. The term abstinence is used here in a qualified sense to mean postponement of enjoyment. When a man parts with his capital he undergoes certain sacrifice for which it is just and proper that he should be remunerated Interest, therefore, is the reward that the capitalist may legitimately demand for the sacrifice of his present enjoyment

Sc. 2. The payment of interest : how condemned.

The charges of interest has been condemned by ancient writers.

There has been a good deal of discussion on the point as to whether the payment of interest is justfiable or not The ancient writers like Aristotle strongly objected to the payment of interest. The Islamic laws condemned in a similar manner the charge of interest when money is lent out to borrowers The Hindu Laws however do not raise any objection to the charging of interest provided the rate of interest is not exorbitant. The principle underlying the opinion referred to above is that borrowers are

How modern circumstances justify interest

generally poor and helpless and that they will be put to the greatest hardship if a rate of interest is demanded from them during the time of repayment. The above opinions however do not hold good under the circumstances of the present time. Capital is now borrowed not mainly for the purpose of consumption but for investment in productive enterprises. The borrowers generally carry on business with borrowed capital and thus derive enormous profit out of it. Under these circumstances it is not at all just and proper that they should be allowed to enjoy the whole profit without paying a farthing to the capitalist whose assistance thev cannot ignore. This is the reason why the economist of the present time justify the charge of interest when money is lent to persons who are in need of it.

Sc. 3. The rate of interest.

The rate of interest varies according to the character of society.

There can be no uniform rate of interest. Although interest is always charged as a reward for the postponement of present enjoyment for a future enjoyment the rate of interest is not the same in every case. The reason can be easily understood. Men lend out their capital with a hope to recover it with interest after the lapse of a period of time; but the chance of repayment is not equally certain in every case Evidently if money is lent out on a good security the capitilist will charge a lower rate of interest because he is sure that repayment must be made and there is no risk in such transaction; but if the borrowers have no security to offer against the loan or if the security offered is not of a sound character the capitalist or money-lender will charge a higher rate of interest. This is so because there is a risk of nonpayment of the debt. The rate of interest is, therefore, governed by the character of security that can be offered

It is governed by the law of demand and supply.

against the loan. There is another important factor that influences the rate of interest. This is the nature of demand for capital with reference to the supply of it. When the supply of capital cannot keep pace with the increasing demand for it the rate of interest will surely rise. We can illustrate this point with reference to the interest prevalent both in the rural part and in the towns of India.

Sc. 4 Interest in rural parts and in towns.

In the rural parts of India interest is governed partly by custom and partly by demand and supply. In the rural districts there is an indigenous system of banking The village money-lenders serve as bankers. The rate of interest charged by them is very exorbitant Even in slack season they will not allow the rate of intest to fall below a certain point. This minimum level of interest may be described as a customary rate of interest. (Again, in this rural areas we will find that the rate of interest rises during the rainy reason. This shows the influence of demand and supply on the rate of interest.) The rate charged for money lent again varies in different villages. The securities may be equally sound but still the rate of interest will not be the same. This is due to the fact that borrowers will generally borrow from the money-lenders of their own village and the supply of capital in a village may be less than what is adequate for meeting all the demands for capital,

A customary rate to be found in villages.

In towns, however, we will find several banks carrying on lending business. The rate of interest will be influenced by the nature and character of the security offered against the loan and at the same time by the supply of capital with reference to demand for the same. The rate of interest will generally fluctuate from 5 to 12 per cent; it rises during the busy season which

The rate of interest rises in the busy season.

generally commences in September and continues till the end of march in the following year. When the trade boom is over the demand for capital decreases and with it the rate of interest falls. This lower rate of interest generally prevails for about 5 months from April to July.)

Sc. 5. The rate of interest and the agriculturists.

We have already seen the general causes that are responsible for the rise in the rate of interest in rural areas. We shall now discuss the reason why the agriculturists have to borrow money at an exorbitant rate of interest and how they are affected by such a high rate The agriculturists of India are not generally the proprietors of land that they cultivate. They culivate land as ryots under other persons who are their landlords. Under these circumstances they have seldom any security to offer against the money that is borrowed by them either for subsistence or for meeting the expenses of cultivation. This absence of security together with the uncertain nature of the industry in which the borrowed capital is invested will, as a general rule, increase the risk of non-payment, and prompt the money lenders to add to the pure rate of interest another sum for the insurance against risk involved in such lending transaction. Thus we see that rate of interest paid by the agriculturist represents the reward not only for postponement of enjoyment but also for the risk undertaken by the money-lender.

The reasons why the agriculturists have to pay higher rate of interest.

The agriculturist of India have been seriously affected by the exorbitant rate of interest charged upon loans made to them. Even in seasons of plenty they are not in a position to keep back sufficient quantities of food crops to maintain themselves and their families till the next harvest season. The money lenders will some-

Their miserable lot.

how or other realise their dues as soon as the crops have been gathered and the rent due to the landlords must be paid in due time. After all these payments have been made they have little or no crops to live upon during the year.

The effect of high rate upon production.

The high rate of interest also influences the method of production. The cultivators cannot borrow sufficient amount of capital and the result is that he cannot carry on production in an efficient manner. The short stock of capital makes it impossible for him to sow better seeds and to apply adequate quantities of manures; some times we find that lands are not properly ploughed even. The Indian peasants cannot for these reasons get better crops Their condition becomes worse when unforeseen circumstances lead to a fall in the price of agricultural crops

The unproductive debts.

Sometimes money is lent out to the poor agriculturists for unproductive purposes The agriculturists have to invite the neighbours and relation during marriage ceremony and they are forced to incur heavy debts on these occasions. These unproductive debts increase gradually and a time soon comes when they have to sell their few acres of ancestral land in order to repay their debts.

Another evil practice.

There is another practice which the village money lenders often take recourse to They take advantage of the helpless position of the poor agriculturists and enter into a contract whereby the agriculturists agree to sell their produce to the moneylenders at a price which is lower than the market price. In this way money borrowed by the agriculturists has to be repaid.

The agriculturists of India have suffered greatly on account of the heavy rate of interest. They can seldom clearup their debts in their

High rate of interest leads to loss of land.

life time and the sons have to bear the burden of the debt of their father. The result is that the rich are becoming richer and the poor, poorer. The agriculturists are quite helpless and they have no organisation to compel the capitalists to lend out money at an equitable rate. The agriculturists have lost the land which their forefathers possessed. They are now absolutely at the mercy of the money-lenders who have managed to take away their few acres of land and may or may not settle the same with them. When the agriculturists are fortunate enough to get settlement they have to pay an amount of rent which covers generally the whole return from the soil. Thus equality of distribution or distribution according to productivity is unknown in these days. The rich who contribute little to production are taking the lion's share and the poor cultivators who toil all day long in the fields have been forced to live a life of misery.

A social and a political danger

The misery to which the agriculturists have been put has been the cause of much dissatisfaction and the attitude of the agriculturists towards the money-lending classes is not favourable. Thus there is want of that spirit of co-operation and sympathy which goes a great way in developing the economic, social and political condition of a country.

Sc. 6. The effect of the rate of interest on the handicrafts.

The high rate of interest is one of the causes of the failure of handicrafts.

The high rate of interest has its fullest effect on the condition of the village artisans. In these days of large-scale production the small-scale producers are decidedly at a disadvantage. The latter cannot afford to supply commodities at a price which is just equal to that charged by the large-scale producers. The progress of science has, however, removed in a measure this

disadvantage by providing the small-scale producers with appliances suited to such production; but in spite of this remedy the artisans of India are not in a position to reduce the cost of production. This is due to the fact that they have to pay a high rate of interest on capital that they borrow from the money-lenders. The rate of interest which they have to pay on capital borrowed by them enters into the cost of production and leads to an increase in the price of the commodities that they turn out.

Sc. 7. The rate of interest and the Government's efforts.

The Government of the country has appreciated the evils that follow from the high rate of interest charged by the village money-lenders. It intended to prevent the realisation of exorbitant rate of interest by legislation. Accordingly the Usurious Loans Act was passed in 1918 conferring upon the courts a discretionary authority to reduce the rate of interest to an "equitable amount." The act, however, failed to give an adequate remedy against the evil practices of the money-lenders because it became very difficult to go behind a contract so as to decide upon a rate which would be equitable to both the parties.

Usurious Loans Act of 1918 and its effect.

The Government of India has again taken a direct step to relieve the misery of the poor agriculturists by making arrangement for the grant of Takavi Loans to them; but this measure has not been very much effective in as much as the conditions accompanying the grant of loan is very stringent. The agriculturists again are not willing to take advantage of this favour because they on account of their illiteracy, look upon the Government with suspicion. Another step that the Government has taken has been to inculcate the spirit of co-operation among people and thereby to enable them to solve their own problem by their own efforts.

The Takavi Loans.

Sc. 8. The rate of interest and the Co-operative Credit Society.

Mutual help and sympathy have been the principle underlving the Co-operative Credit Societies. These societies have been introduced into India and are at present rendering yeoman's service to the community. The capital of these Societies is derived from the following sources, viz. (1) Share captial, (2) deposits by members, (3) loans from Central Co-operative Banks and (4) loans from private funds. After these Societies have been established and fund has been accumulated in the above ways loans are made at a rate of interest which is lower than that charged by the village money-lenders. The Government has been generous enough to make certain contribution to these Societies but its aid has been too insufficient to give adequate relief to the chronic indebtedness of the vast population of India. The Co-operative Credit Societies, however have liberated many from the usurer's yoke. To relieve the miseries of the poor agriculturists Dharmagolas or Grain Banks have been established in some parts of Bengal. These banks are constituted by deposits of grains in times of plenty and withdrawal is made out of them when the members are in difficulty. These serve very useful purposes but their chief defect lies in the risk of deterioration on account of the perishable nature of the articles deposited.

The Co-operative Societies have reduced the rate of interest.

Co-operative Grain Banks.

Sc. 9. Want of banking facilities and the rate of interest.

The high rate of interest is mainly due to want of banking facility.

In India, unlike other civilized countries, the organisation of banking is still in its infancy. In towns there are few banks financed by foreign capitalists and managed by foreign directors; but these are quite insufficient for meeting the demands of capitial. Again, in the moffusil we find

that banks are conspicuous by their absence. The result is that the people have no other alternative but to depend upon the money-lenders, and are forced by circumstances to borrow at a very high rate of interest although they have good security to offer against the loan. The rate of interest cannot fall unless there is adequate banking facility throughout the whole of India.

Attempt shall be made to develop the banking system of India. In 1929 a Central Committee of Enquiry and ten local committees were set up to study the present system of banking in general, and in particular to suggest schemes whereby the indigenous and joint-stock banking might be developed in accordance with the requirements of agriculture, commerce and industry. This committee was also advised to recommend methods of improving technical instruction in such a way that a sufficient number of qualified Indians might be forthcoming to satisfy the country's need for a sound and well-managed banking system.

Improvement in the banking system.

Questions and Answers.

1. It is said in India that the rate of interest is not always determined by the condition of supply and demand of capital and that the Co-operative Credit Societies are tending to the establishment of what is called a market rate of interest. (C. U. 1918,—See Secs. 4 and 8.)

2. What influence do the banking facilities exert on the rate of interest? Show how far the Indian rate of interest has been influenced by them. (See Sec. 9.)

3. Describe the utility of Co-operative Grain Banks in Bengal. (C. U. 1924,—See Sec. 1.)

4. What step has the Government taken for reducing the rate of interest? (See Sec. 7.)

5. Describe the nature of the rate of interest as prevalent in rural parts of India; how does it afflict the agriculturists? (See Sec. 5.)

6. 'The expropriation of the peasantry by the money-lenders is a social and political danger.' Explain this and indicate the remedies that have been applied to meet this evil. (C. U. 1929, Secs. 5, 7, 8.)

CHAPTER XI.

DISTRIBUTION—contd.

Wages.

Sc. 1. What is meant by Wages.

A remuneration to the human agents

The term "wages" may be briefly defined as remuneration paid to the labourers for the contribution that they make in production. Production cannot be carried on without the help of these human agents and an enterpriser however well-equipped with up-to-date machineries his business may be, must necessarily hire some labourers to guide and conduct them in a proper manner. Hence arises the necessity of payment of wages to the hired labourers.

Sc. 2. How wages are determined.

The wages in India have been determined by custom and by the law of Demand and Supply.

The rate of wages is governed by the condition of demand for labour with reference to supply of it. If the existing supply of labour in a village is not sufficient to meet adequately the demand for it there will be competition among the employers, with the result that there will be a rise in the rate of wages. This is true in every country where there is little or no mobility of labour and is a peculiar feature of Indian wages; one important point deserves notice in this connection. This is the influence of custom on wages. Although in these days of civilisation custom is yielding place to competition still the ignorant, immobile and unskilled labourers of India have not yet been able to shake off the influence of custom upon wages. They will be found to accept customary wages when the payment is made in terms of produce; but the

state of things is disappearing fast and the influence of competition on wages cannot be ignored at the present time.

Sc. 3. The rates of wages of different classes of labourers.

In India as in every other country there are different classes of labourers and the rates of wages are as numerous as there are classes of labourers. The labourers of India may be classified in the following groups, (1) The agricultural labourers, (2) The artisans, (3) The industrial labourers (4) Those engaged in educated services

Wages paid to the agricultural labourers.

Agriculture is often carried on with the aid of hired labourers. They are sometimes remunerated by money wages but often we will find that their wages consist wholly of payment in kind or partly of money and partly of a share in the produce. During the harvest season there is an increase in the demand for this class of labourers and the rate of wages rises to the maximum point. In other parts of the year there is little demand for their services and they will be found to sit idle The rate of wages of this class of unskilled labourers has, as the statistics show, risen to a certain extent. In Bengal there is a rise of about 40 per cent.

The rate of wages paid to the skilled labourers.

The services of the artisans are described as skilled labour. This class includes the carpenters, masons, black-smiths and such other labourers whose work shows some amount of skill and as such can be easily distinguished from the services of unskilled labourers. Before the monetary system of exchange came into existence their services were rewarded by payment in kind but at the present time they get their remuneration in terms of money according to the piece-work system of paying wages. Next we come

to the industrial labour. This class includes the labourers who are engaged in mills and mines as well as those who earn their livelihood by producing textile fabrics and dresses. They are as numerous as to make up about 16 per cent. of the whole population of India. The rate of wages varies according to the grades of labour and is influenced by the law of demand and supply. The wages of this class of labour are increasing gradually. The fourth class of labour with which we are concerned in this section is represented by those who are engaged in services which cannot be performed by illiterate persons. The condition of this class of labourers is becoming miserable day by day. The learned professions have been overcrowded to the outmost point and show little or no prospect to the new comers.

The rate of wages among the industrial labourers.

Sc. 4. Efficiency and the rate of wages.

The rate of wages depends upon efficiency.

The rate of wages is intimately connected with efficiency. The employers engage labourers with a view to derive certain profit out of the transaction. They will be found to make the best use of the existing stock of different grades of hired labourers by engaging each operative to perform those operations for which he has sufficient skill. The remuneration will be adjusted according to the skill of the operatives. This fact, in a way, explains the different rates of wages payable to different grades of labour engaged in the same industry. Again, we will find that the wages paid to the children are less than that paid to the adult labourers. This is so because the former is less efficient than the adult labourers of the same grade. Thus, it is true that the rate of wages is determined by efficiency. Again, it is no less true that the rate of wages, in its turn, influences the efficiency of the labourers.

Sc. 5. The low-paid labour is not necessarily cheap.

India's industries are not benefited by the low rate of wages.

It is an uncontested fact that the rate of wages paid to the Indian labourers of a certain grade is less than the corresponding rate paid to the labourers of the same grade in other countries that have flourished in the sphere of industry; from this fact the foreigners will be found to argue that the Indian industries have an advantage in this respect over similar industries of other countries. This method of reasoning is fallacious in as much as it is based on the presumption that labourers of India are as efficient as those of other countries; but when we look into the actual state of things and compare the efficiency of Indian labourers with that of the labourers of other countries it will be quite clear that the presumption cannot stand. The Indian labourers are so very inefficient that, when compared with the labourers of the same grade of other countries they do not deserve the rate of wages at which they are at present remunerated. Even if we assume that the efficiency of the Indian labour as compared with that of the labourers of other countries is proportionate to the amount of wages paid to them still they cannot be employed with profit because the business-man will require more appliances than what will be required by a similar business-man in a different country where the labourers are more efficient.

Sc. 6. The real and nominal wages.

How to measure real wages.

The prosperity of the labourers is to be measured by their real wages as distinct from nominal wages. These two terms require some explanation. By nominal wages we mean the money-wages, that is, wages measured in terms of money. The term "real wages" means all the

advantages that are enjoyed by the labourers. In calculating the real wages we are to take into account the subsidiary advantages that are associated with the employment and at the same time the amount of comforts that the money-wages may purchase for them. The purchasing power of money cannot be ignored when the real wages are to be determined. The nominal wages may increase, yet there will be no increase in the real wages if, along with the increase in nominal wages, the prices of commodities required by the labourers for subsistence have also increased.

Sc. 7. The mobility of labour ; how it influences wages.

The free mobility of labour can increase the rate of wages.

Indian labourers are generally immobile; They are so fond of their domestic life that they will be willing to live miserable life in their humble cottages rather than accepting a very lucrative job in a distant place. This want of mobility has been one of the causes of unemployment and of difference in the rates of wages in different provinces. Even the rate of wages of one grade of labour as prevalent in one village will be found to differ from the corresponding rate in another village which is adjacent to the former village. The pecuniary conditions of the labourers will be greatly improved if they are less homesick and more enterprising. They should not hesitate, in the least, to leave their home if by doing so they can get higher wages and live in comfort. Again, the development of the means of communication has made it possible for the labourers to sell their services at distant places where the demand for labour is sufficiently great to fetch higher wages for it. It is a happy news for India that her labourers are becoming more mobile than they had been in earlier times. We will find an influx of labour from Orissa to

Bengal during the harvest season when the demand for agricultural labour reaches the maximum point.

Sc. 8. Rates of wages in different provinces.

Different rates of wages in different provinces.

On account of the want of mobility among labourers there prevail different rates of wages in different provinces. In Bengal the average rates of wages of unskilled labourers do not at present exceed 10 as a day. The wages of skilled labourers are higher than that of the unskilled labour. In Bombay the average rate of wages of unskilled labour has at present risen to 12 as. and that of skilled labour may sometimes amount to about Rs. 2 a day. In the Punjab the rate of wages for unskilled labour has been about 12 as. a dav while that of skilled labour varies from Rs. 2 to Rs. 2½ a day.

Sc. 9. The recent rise in wages ; its causes.

The cause of the rise in nominal wages.

If the rate of wages of the present time is compared with that of the past it will be found that there has been an appreciable rise in the nominal wages of the labourers. It is interesting to note the causes that have been responsible for this rise. The most important of these causes is the rise of prices. The labourers have to spend their wages in purchasing commodities that are necessary for subsistence. There are certain articles without which they cannot keep their body and soul together. It should not, however, be concluded that the wages must necessarily be such as to secure for the labourers the same amount of comforts. No employer will be so foolish as to follow these principles. He will be governed by his own selfish interest and adjust the rate of wages in such a way as to leave at least a normal profit after all the expenses together with wages have been met. He will raise the wages if the articles produced by

(1) The rise in prices raises the nominal wages.

him can be sold at a higher price; but it should be noted that there is a limit below which the wages can not fall. No such business can be conducted with hired labourers as will not be remunerative enough to pay at least the normal rate of wages paid by business of similar description.

(2) **Intimate connection between efficiency and wages.**

2. The next important cause of the rise in wages is the rise in efficiency of the labourers. There is an intimate connection between efficiency and wages. If the efficiency increases the labourers can legitimately demand higher wages. There will be competition among employers to hire these labourers and the result will be that their wages will rise.

(3) The scarcity in the supply of labour is another cause of the rise in wages; if the supply of labour cannot keep pace with the increasing demand the remuneration of the labourers will surely rise.

Inefficiency of the labourers, their immobile character.

In India there is scarcity in the supply of labourers. The supply of labour is to be measured not merely by members but by the efficiency of the labourers. There may be larger number of men who are seeking for employment but still the supply of labour is scarce because the labourers are inefficient. The wages that the labourers get are sometimes higher than what they deserve according to their productivity. Again, the supply of labour in some industries is small and in consequence the labourers get higher wages. In India there is no mobility of labour from one occupation to another. The middle-class people of India will sometimes be found to sit idle for want of employment but they will not get themselves employed in factories nor would they take up agriculture as their occupation. The number of unskilled labourers is not sufficient to meet the demand.

In certain provinces we find that the wages of this class of labourers have increased because they are few men who are ready to sell their services while there is a great demand for their services. Among the agriculturists we find men who will not be engaged as hired labourers. This is the reason why the common labourers get higher wages.

Sc. 10. The relation between prices and wages.

The rate of wages may be raised if the articles produced can be sold at a higher price.

There is some sort of connection between wages and prices; whenever there is a rise in the price of articles the labourers will make agitation for an increase in the rate of wages; but such an agitation will not necessarily be followed by higher wages unless the former wages were less than what the labourers might legitimately demand according to the doctrine of marginal productivity. In fact the employers will not raise wages so as to reduce their normal profit. Again the rise in the price of articles produced by the hired labourers will permit a rise in the rate of wages. It is important to note in this connection the effect of abnormal rise in prices of food stuffs upon the wages. In times of scarcity a large amount of capital is spent for procuring food and this reduces the fund available for the employment of labourers. Thus there is unemployment and in consequence there is competition among labourers to get themselves employed at lower wages.

It is to be borne in mind that there is no causal connection between prices and wages. The increase in prices does not lead to the proportionate rise in wages. Wages often lag behind. The converse is also true; the wage-earners will not be willing to accept lower wages because price has fallen Sir Purushottam Dass Thakurdas points out that the famous strike of textile

workmen of Bombay which took place in 1925 illustrates their unwillingness to reduce their wages in response to the fall in prices.

	1913		1916		1919	
	Prices	100	Prices	130	Prices	170
Cotton ...	Wages	100	Wages	103	Wages	129
	Prices	100	Prices	92	Prices	107
Rice ...	Wages	100	Wages	100	Wages	100
	Prices	100	Prices	215	Prices	135
Jute ...	Wages	100	Wages	100	Wages	103

Sc. 11. The National Dividend and the wages.

Wage-earners do not generally get their due share.

The National Dividend of India as of every other country is the outcome of contribution made by all the four agents of production and at the same time it is the sole source of payment for all of them. The labourers make their contribution to production and for this are entitled to a share in the National Dividend. Now the question is whether the labourers get their due share of the National Dividend; if the rate of profits derived by the business men be compared with that of wages it will be seen that the wage-earners do not generally get their legitimate share of the National Dividend. The employers will be found to derive huge profit at the expense of the labourers who are destined to live miserable lives. This low rate of wages has been partly due to the lack of organisation among labourers. The labour-unions are still in their infancy in India and as such can not compel the employers to make better arrangement for the wage-earners.

Sc. 12. How the wages can be raised.

The labourers of India will be found to live

under impecunious circumstances. This mode of living has its worst effect upon their efficiency and will ultimately lead to the reduction of the National Dividend by which the economic prosperity is to be measured. The position of the labourers will be very much improved if they are allowed to enjoy their due share of the National Dividend ; but the employers will not ordinarily be so generous as to permit the labourers to have their due share. Such being the case it is urgently necessary that the labourers should form labour-unions and attempt by united efforts to extort their legitimate share of the National Dividend. The rate of wages can be increased by increasing demand for labour. This is possible if there is diversification of industry. Again, a restriction on the supply of labour by placing restraints on immigration may bring about a rise in the rate of wages.

The low rate of wages tells upon the efficiency of the labourers.

Sc. 13. The trade-unions ; their weapons.

By trade-union we mean a union of labourers belonging to a particular trade; such a union generally comes into existence when the grievances of the labourers reach their zenith; but sometimes they may be occasioned by less important causes. In India the organisation is still in an inchoate state, it will take a long time to attain that amount of solidarity as has been reached by similar unions of other countries. Most of the unions have no permanent existence but are mere strike organisations continuing as such till the cessation of strike. The illiteracy of the labourers makes it impossible for them to comprehend fully the utility of such organisation and the failure of strikes has the effect of disheartening them. Again, the humble income of the Indian labourers does not permit the regular payment of contribution for the upkeep of such

The defective organisation of the Trade-unions and its

organisations. Under these circumstances it is quite natural that the number of strikes will become fewer day by day. In 1923 there were only 213 strikes as against 400 strikes that broke out in the year 1921. The other weapon which can be taken recourse to by the trade-unions is known as boycott but this weapon has been scarcely used with success in India. In 1925 a draft-bill was introduced into the Legislative Assembly with a view to give legal recognition to the trade-unions. That bill was passed into an Act in regular course. The legal recognition thus secured surely stimulates the activity of the trade-unions.

Trade Union Act of 1926.

This Act which is known as the Trade Union Act of 1926 offers to all bonafide Trade Unions an opportunity of registration. The registered unions are under obligation to frame rules in certain matters, to have their accounts audited, to provide for a minimum proportion of workers on the executive and to confine expenditure on certain specified objects. These unions enjoy certain privileges which may be briefly described thus:—The members and officers of the unions obtain protection from liability for breaches of contract in respect of acts done in furtherance of trade disputes and the officers are in some respects immune from prosecution for criminal-conspiracy. This Act has fostered the growth of trade unions and the number of registered unions was 78 in 1929.

Sc. 13 (d). Strikes and their characteristics.

The workmen take recourse to this weapon in their struggle with the employers. The employers always try to get the highest profit and for this reason they are not willing to give the labourers wages which they deserve. The employers, however, cannot carry on production

unless the labourers agree to sell their services. If the labourers all on a sudden suspend their work the whole machinery will stop and the capital that has been invested will remain idle. This is the reason why the employers are sometimes found to come to speedy settlement of industrial disputes. The labourers again are at disadvantage because they have little or no fund to maintain themselves and their family during the time when they sit idle; but in India industrial labourers do not simply depend upon their wages and they can easily return to their village in order to resume their traditional occupation. This fact explains the extraordinary duration of many of the strikes of recent years.

Importance of labour in production.

In order that the labourers may succeed in their struggle with the employers there must be an organisation among labourers. The labourers must be aware of the utility of such organisation and must be guided by its rules and regulations. In India Trade Unions play important parts in organising strikes; but these Trade Unions are comparitively weak in India because there is, generally speaking, no static urban proletariat upon which those organisations can be based and consequently the leaders of the Trade Unions have comparatively little hold over the uneducated and impermanent union members.

Need of organisation among labourers

Strikes in India as in other countries are mostly due to economic causes. In recent times they were taken recourse to by the labourers when the employers attempted to lower their wages which rose very high during the war time. The prices of commodities fell but the labourers were not willing to accept lower wages, hence most of the strikes came into existence. Sometimes strikes have been taken recourse to in order to protest the decision of mill-owners regarding the increase of working hours of men from 55 to 60 hours a week. Again strikes have been held

Causes of strike.

inorder to compel the employers to make adequate arrangement for housing and provident funds. These organisations have not been based upon sound principle. The employers have in certain cases been affected seriously on account of the extravagant demand of the labours. Again, the labourers are sometimes found to suspend works for trifling causes. The dismissal of some fellow workers gave rise to strikes in Tinplate works at Galmuri in 1929.

Non-violent nature of strikes.

It is important to note that the labour organisations have always followed the policy of non-violence in their efforts to arrive at a settlement of industrial disputes. The number of strikes that occurred during 1929 was 141 as compared with 203 during the previous year and the number of men involved was 531,059.

The weapon should be used with caution.

Strike is a weapon which the labourers should use with caution. The labourers or their leaders should bear in mind that employers hire labourers with the object of earning profit. So when the prices of commodities have fallen the cost of production which includes wages must be reduced in order that the businessmen may get their legitimate income. In such cases if the labourers protest the reduction in the rate of wages the capital will cease to be invested in the business and demand for their services will fall greatly. Although the businessmen will suffer loss but the labourers will be the worst sufferers. Again, frequent strikes tells upon the development of industry and brings about chaos in industrial organisation. The public suffer greatly when the strikes continue for a long period of time. The foreigners come forward and supply articles to meet the demand of the consumers with the object of jeopardising the interest of Indian industries. The evil consequences of strikes were appreciated by the Government and accordingly the Trade Disputes

Evil effects of strikes.

Act was passed in 1929. The object of this act was the provision of a machinery for preventing and settling industrial troubles, in the shape of Courts of Enquiry and Boards of conciliation. The Court of Enquiry is concerned with investigation and report on disputes while the Board of conciliation concentrates its energy in settling disputes. The Governor-General in Council appointed such Board to deal with the dispute between the Agent of the Bombay, Baroda and Central India Railway and the employees' Union.

Trade Disputes Act of 1929.

Sc. 13(b). India : a member of the International Labour Organisation.

India is a vast country and its population amounts to the enormous figure of 320 millions. The people of India are mainly engaged in agriculture. The industrial labourers including those engaged in organised and unorganised industries are about 5¼ per cent of the total population. This numerical strength of Indian labourers secured for them a place in the International Labour Organisation. As a member of the League of Nations and of the International Labour organisation India has had to take into consideration the various Draft Conventions and Recommendations adopted by the International labour Conference. In fact the various factory legislations that have been passed in India have been greatly influenced by these conventions and recommendations. India has taken into consideration the Draft convention recommendation adopted by the Eleventh International Labour Conference on the subject of minimum wage-fixing machinery but the Indian Legislature has not decided the question and wants to reconsider the problem in the light of the recommendation of the Royal Commission on Labour which was constituted in 1929 but has recently submitted its report.

India's place in the International Labour Organisation.

Sc. 14. The Factory Acts; its effect upon wages.

The Factory Acts have increased the efficiency of the labourers and thereby raised wages.

In an earlier chapter we have already given a brief account of the Factory Acts that have been passed by the Government of India with a view to ameliorate the miseries of the Indian labourers. The legislation has been directed mainly to the reduction of the hours of labour and to the improvement of housing and sanitation. It is interesting to observe what bearing these Factory Acts have upon the wages of labour. True it is that they do not regulate the amount of wages that should be paid to the labourers by their employers; but their indirect effect upon wages cannot be ignored. It is admitted on all hands that if the labourers are forced to work for many hours a day they will become exhausted in the course of their work and cannot be expected to take interest therein. The result will be that their task will not be satisfactorily done. If on the other hand the hours of labour are reduced in accordance with the recommendation of the Industrial Commission they will take much interest in performing their part of the operation and will try to improve the nature of production. Such reduction of hours of labour will, therefore, have the effect of promoting the efficiency of the workers and will thereby bring about a rise in wages. Again, the improvement of the condition of housing and sanitation will have no less influence upon health and strength of the operative and the wages will ultimately rise on account of the increase in efficiency.

Sc. 15. How to regulate the rate of wages?

The rate-of-wages should respond to rising and falling prices.

It is no doubt desirable that the rate of wages should be so adjusted as not to deprive the labourers of their due share in the National

Dividend; but it should not be allowed to curtail the normal rate of profits which the business men may legitimately demand; if the rate of wages has been already too high the labourers should not compel the employers to raise the rate higher. Often it becomes necessary that the rate of wages should be reduced because the circumstances which necessitated the rise in wages are no longer in existence. If the rate of wages should rise to keep pace with the rising prices it should also fall when there is a fall in prices. If the labourers strongly protest the lowering of wages when the circumstances demand such reduction the interest of the businessmen will be at stake. The result of such protest will be that the industrialists will cease to carry on their production. This will make the problem of unemployment more complex and ultimately the labourers will have to suffer the consequence. The domestic industries will die out and the foreign goods will reign supreme in Indian market.

Sc. 16. The Industrial training and its effect upon the rate of wages.

The miserable condition of the labourers may be improved if the industrial training is remodelled.

In India we will find a substantial difference in the rates of wages of different grades of labour. This is due to the fact that there is no free mobility of labour from one grade to another. The nature of industrial training is defective in as much as it imparts only practical knowledge to the labourers. If by chance the invention and introduction of some machineries happen to displace the labourers of a particular grade their defective training will not help them in any way to secure job in any other department. Again, there may be an increase in the demand for labourers of a particular grade while at the same time the labourers of another grade are suffering seriously for want of employment.

Then labourers of the latter grade cannot easily shift themselves to the grade in which there is an increase of demand. If the nature of industrial training be such as can improve the general faculties of the labourers there will be free mobility of labour from one group to another with the result that non-competing groups will disappear.

Sc. 17. How to make the best use of wages.

The efficiency of the labourers can be improved by making the best use of existing wages.

If the wages have already been adjusted with reference to the marginal productivity of labour and cannot on that account be raised without loss to business and enterprise the only means of improving the efficiency of labour is to make the best use of existing wages. The labourers should distribute their humble income in purchasing commodities in such a way as to derive the maximum efficiency therefrom. They should purchase those articles which can give them the best nourishment. Often the labourers will be found to spend a large proportion of their wages in purchasing intoxicating liquors to the detriment of their health and strength. This mal-adjustment of expences is partly responsible for the inefficiency of the labourers. Another way in which the labourers can derive the maximum benefit from their income is by form ing a co-operative purchasers' union. Such a union will help them to purchase commodities at a price which is lower than that charged by the retail shopkeepers and at the same time develop a spirit of co-operation among them.

Questions and Answers.

1. Describe the principal causes that have affected wages in Bengal. Enumerate the probable causes of the recent rise in prices. (C. U. 1913. —See Secs. 8 and 9.)

2. Describe the chief characteristic of Indian labour. Examine the contention that the low-paid labour is not necessarily cheap. (C. U. 1925. —See Sec. 5.)

3. Describe the present position of the Trade Unions in India. What will be the effect of recent legislation on the progress of the movement. (C. U. 1928.—See Sec. 23)

4. Account for the low rate of wages of Indian labourers. (See Secs. 4 5, 7 and 11.)

5. Is there any relation between prices and wages? Discuss the question with reference to Indian condition. (See Sec. 10.)

6. What is the effect of Factory Legislation upon wages? (See Sec. 14.)

7. How can the rate of wages of Indian labourers be raised? (See Sec. 12.)

8. Discuss the characteristics of Indian strikes; what are the economic consequences of such strikes? (See Sec. 13a)

CHAPTER XII

DISTRIBUTION—(*contd*).

Profit.

Sc. 1. What is Profit ?

Profit is the remuneration of the business-men.

The term 'profit' may be defined as that share of the National Dividend which is left for the businessmen after all other agents have been remunerated. The conception of the term will be clear if we study the actual conduct of a business by an enterpriser. If we follow him in his pursuit we will at once find that he cannot go on without the aid of the other agents of production ; he must hire land and labour, invest capital, however small ; his ability or competency is to be used in adjusting the employment of each agent in such a manner as will secure the highest remuneration for his efforts after payment has been made to all the other agents that he has employed. Thus we find that the businessman is the sole risk-taker and his profit will include a remuneration for this risk-taking over and above that for the management of business. The profit of business will sometimes be found to include an interest for his part of the capital invested in business.

Sc. 2. The rate of profit.

The rate of profit varies according to the of business.

It is very difficult to state accurately the rate of profit derived by a businessman in an Indian industry. The rate of profit depends greatly upon the ability of a particular businessman. It is incorrect to say that every businessman engaged in the same business derives the

same amount of profit. Still we will try to determine the average rate of profit in a particular business. In agriculture the rate of profit is lower than that derived from manufacturing business. This is so because the former has to depend greatly upon nature and the efforts of man, however careful, can not override the influence of nature. The profit derived from agriculture is uncertain to a very great extent. Inspite of this uncertain and fluctuating character of agricultural profit we can say that the average rate of profit varies from Rs. 10 to Rs. 15 per acre. The manufacturing industries have not to depend upon nature but the rate of profit depends in a great measure upon the organising faculties of the business man. If the business is under the management of an able organiser it will yield a fabulous amount of profit. Some of the highly organised industries have been found to yield profit varying from 50 to 80 per cent. but ordinarily, manufacturing business will yield a rate of profit which will range from 8 to 16 per cent.

Sc. 3. Why the rate of profit is so low ?

The causes of the low rate of profit earned by Indian businessmen.

In comparison with the rate of profits derived by businessmen of other countries the rate of profit is very low in India. It is interesting to study the reasons behind such low rate of profit. First, the businessmen of India are less enterprising and in consequence, cannot take risk as boldly as the businessmen of the western countries can do. There are in India few men who may aspire to the position of a leader of industry. Secondly, the businessmen of India have not sufficient fund to invest in their business. They cannot for that reason carry on production with the help of up-to-date machineries that have been invented to facilitate production. Thirdly,

the production cannot be carried on large scale and as a result of this the manufacturers cannot derive in full all the economies that follow from large-scale production.

Foreign competition.

Fourthly, the Indian market has been thrown open to the foreigners who have already established flourishing industries and are in a position to produce articles with a lower cost of production. The Indian industialists are faced with this foreign competion and are compelled to reduce the price to a level which will leave a very insignificant amount as surplus over cost of production. If foreigners are ever placed under such circumstances their government will come forward and protect them from foreign competition by the imposition of heavy protective duties upon the imports of such rival commodities In India, however, inspite of the efforts of the government to protect the infant industries such a state of things does not exist

Sc. 4. The domestic competition ; how it affects profit.

The effect of foreign competition to be distinguished from domestic competition.

We have seen in the preceding section how foreign competition has reduced the rate of profit; we shall now discuss how domestic competition affects the rate of profit To a superficial reader of Indian Economics it may appear that it is useless to distingnish one kind of competition from the other kind of it when both seem to play the same part so far as the rate of profit is concerned but if we study the problem with a bit of scrutiny we will at once come to the real point of difference. A foreign competition may ultimately lead to the destruction of the infant industry and make the country dependent upon another for the supply of the article while domestic competition will have the effect of

reducing the rate of profit merely. It should be noticed in this connection that every industry is not subject to competition in an equal degree. The competition is generally very keen in industries that do require business faculties of an ordinary character; but in businesses which are attended with much risk and which can be profitably conducted by a businessman of exceptional merit there is little or no competition. Such businesses are under the control of few persons and in consequence, the rate of profit is much higher than the ordinary rate.

Sc. 5. The rate of profit and the consumers' surplus.

The high rate of profit does not necessarily affect consumers' surplus.

In industries which are less subject to competition the organisers will be found to derive the highest amount of profit. They are, to a certain extent, in the position of a monopolist and will so adjust the prices as to derive the largest amount of net profit. Such a state of things is however prejudicial to the interest of the consumers if the highest profit is derived by raising the prices abnormally. It is not, however, true that organisers who are at such an advantageous position will always derive the highest profit at the expense of the consumers. They may sometimes add to the consumers surplus if by doing so they can promote their selfish interest. It should not, however, be concluded that the very fact that an Indian industry yields a rate of profit which is much higher than that yielded by other industries shows that profit is derived at the expense of the consumers.

Sc. 6 The profit of middle-men.

In Economic Science 'production' means creation of utility; the term 'producer', therefore, is wide enough to include persons who will not ordinarily be regarded as such. The middlemen

with whose profit we are concerned in this section can be regarded as producers because they render some useful services to the community. These middlemen comprise money-lenders, traders, exporters and such other persons. These persons will some times be found to take advantage of the ignorance and helplessness of the real producers and will derive enormous profit at the expense of those producers. Let us first turn to the money-lenders of the rural areas. They will be found to lend money to the agriculturists often on condition of the payment of certain amount of crops when the harvests have been reaped. They sell out the amount of crops so obtained and their profit is measured by the sale-proceeds. Again, we will find traders who are producers in the sense that they facilitate the transfer of commodities from the real producer to the actual consumers. Their profit includes a remuneration for organisation and the element of risk is greater in such trading businesses than in money-lending business. They are legitimately entitled to the amount of profit that they earn while the profits of money-lenders are partly due to the extortion practised upon the helpless producers. Again, we will find a separate class of middlemen who are known as brokers. These persons work as intermediaries between buyers and sellers and are generally remunerated by commission. In India the number of middlemen is increasing day by day. There are several causes which have been responsible for such growth.

Various classes of middlemen and their services to the community.

Why the number of middlemen is increasing

First, there is a rise in prices which makes it possible for the middlemen to derive huge profits; again, there is little chance of loss if the circumstances show that the prices of articles of a particular trade will go on rising steadily. Secondly, the small-scale production is being replaced by a large-scale production with the result that it is practically impossible for the

producer to dispose of the whole output without the help of intermediaries. Thirdly, the producers are sometimes ignorant of the nature of demand for the articles in a foreign country.

Questions and Answers.

1. Why the rate of profit is so low? Compare the rate of profit of the Indian businessman with that of a businessman in a foreign country. (See Sec. 3)

2. Discuss the effect of both domestic and foreign competition upon profit. (See Sec 3.)

3. Compare the rate of profit in agriculture with that in manufacture. (See Sec. 2.)

4. Discuss the relation between the rate of profit and consumers' surplus. (See Sec. 5)

5. State the nature of profit derived by middlemen. (See Sec. 6.)

CHAPTER XIII

FOREIGN TRADE AND FISCAL POLICY

Sc. 1. Early history.

Ancient trade of India.

We find at the present time that India has developed her commercial connection with almost all the civilized countries of the world; but when we study the history of this development we will come to learn that this development has not been attained in the course of a single century. India had to struggle hard for centuries together before she could reach the stage at which we find her today. At first India used to trade by land with China, Arabia and Persia and it is believed that there was tradal relation with Europe through Arabia.

Trade during the Muhammedan period.

India's trade by Sea commenced as early as the 6th or the 7th Century B. C. but the sea-route was not very extensive and it did not offer much facility for international commerce. In the Muhammedan period India ceased to carry on her trade with Europe and the sea-route was completely discarded. The sea-trade thus remained in abeyance till it was revived by the discovery of a sea-route by Vasco-De-Gama. This discovery of sea-route to India contributed much to the re-establishment of tradal connection with Europe. At the beginning there was open competition between the Portuguese, Dutch, French and English companies but later on the English East India Company succeeded in securing a practical monopoly of trading with the East. In this way enterprising foreigners began to develop their commercial relation with India which had been a fabulous name to them;

The discovery of Sea-route and the development of trade.

but they were confronted with difficulties of various character. Their trade was hampered by natural obstacles and by the wars that broke out at intervals on account of untiring attempts made by rival nations to subdue one another. The sea-route was not in such a developed condition as to facilitate communications between different countries. The trade again was restricted to articles that can be found near the coast. The articles that were produced in the interior could not be available on account of the absence of internal communication.

Policy of the East India Company. How India came to the present position?

When the East India Company established their trade marts in India they found that India produced cotton fabrics, calicoes and silk of excellent quality Their selfish interest prompted them to export these commodities to Great Britain but their attempt failed because the Government of the United Kingdom appreciated the evil effect of the import of those commodities upon their industries and imposed protective duties upon such commodities Thus India ceased to export manufactured articles and was forced to take up the position of a plantation supplying England with raw materials which were required by her manufacturing industries. The monopoly of the English East India Company continued for a century but gradually other foreign countries e.g. Germany, Japan and U S. A. developed their industries and came to compete with England in the supply of manufactured articles which India happened to require.

Sc. 2. Its development.

The Suez canal helped the trade.

The foreign trade of India was facilitated very much by the excavation of the Suez Canal and the internal communication was developed by the construction of railways and canals. The Suez canal plays an important part in as much as it has reduced substantially the amount

of time required for carrying articles of merchandise from India to England. The application of steam power has also rendered much assistance in this connection. Again, the introduction of railways have improved internal communication and has thereby caused an extension of the foreign trade Besides these two factors there are several others which have contributed to the development of India's commercial relation with foreign countries.

Fiscal policy and its effect.

Whenever we study the foreign trade of a country we will at once realise the importance of fiscal policy in the development of the trade. A country which is conscious of its own interest will often try to restrict the importation of cheap foreign goods so that its domestic industries may not die out untimely. This has been the state of things in U. S A and Germany; In India the tariff policy has been so moulded as to facilitate the importation of cheap foreign goods to the detriment of the infant industries. The duties, however, have been imposed for revenue purposes but they are too low to impede the progress of foreign trade. The foreign trade has proceeded without any hindrance from the government.

Stability of exchange is another factor.

Another important factor in the development of India's foreign trade has been the stability of exchange and the responsibility of the government in this connection The establishment of Exchange Banks in India has played no mean part in financing the foreign trade of India.

Total volume of foreign trade.

All the above factors have their influences upon the expansion of India's foreign trade. The total value of India's export and import amounted in 1929-30 to Rs. 5,88 crores as compared with Rs. 34 crores in 1850-51. This comparison cannot however give us an accurate idea of the development of foreign trade because there occurred substantial changes in prices

between the two years. Nevertheless it goes unchallenged that increase in the value of the foreign trade has been immense.

Sc. 3. The condition of trade during the last Great War.

India became a creditor country during the war.

Though the balance of trade during the time of war has lost much of its importance still it will give us an idea of the circumstances under which India which is ordinarily a debtor country may attain the proud position of a creditor country During the last war India had to supply the belligerent countries with food stuffs and other articles. The export of manufactured articles also increased considerably because the industries of England could not at that time turn out commodities to meet the total demand for them Again, other countries which formerly supplied England with commodities restricted their trade with her. The result was that England's demand for Indian goods increased enormously. But although the export trade in certain articles increased the total export trade received a set back on account of the following reasons:—(1 India had to suspend her trade with Germany which was one of her best customers. (2) Demand for raw materials fell because the belligerent countries neglected their industries during war time. (3) The freight charges increased considerably on account of want of ships to carry India's exports. (4) The instability of foreign exchange and the curtailment of the sale of council bills had their influence upon the export trade of India Another important effect of the war was the rise in prices; the price of imported articles, however, was higher than that of the articles of export. For this reason the import trade was reduced to a very large extent. There were also other causes of the decline of India's

import; first, the countries were engaged in war-fare and for that reason could not properly carry on their production of articles of merchandise and secondly, every country tried its best to preserve the stock of precious metal that they possessed. Again, India became creditor to England by contributing to the British War loan.

Sc. 4. Balance of trade.

What is meant by balance of trade.

By balance of trade we mean the difference between the value of export and import. When India has an excess of export over import the balance of trade is in her favour and she becomes a creditor country to that extent; but if the value of import exceeds that of export the balance of trade is against her and India in that case is said to have an unfavourable balance of trade.

Visible and invisible exports.

We should bear in mind this one important fact that a country's balance of trade is not wholly represented by the difference in the value of her exports and imports of merchandise. The export of merchandise constitutes her visible exports merely. There are other items which go to extend the credit of a country. These are technically termed as invisible exports. Let us take one concrete case The capital that is remitted to India by foreigners for financing Indian industries falls within the category of her invisible exports. This is so because her credit is extended as soon as the above remittances are made. A debtor thus becomes creditor to the extent of the loan that another has agreed to grant in his favour. Similarly, there are items which constitute a country's invisible imports. As for instance the interest that India pays every year to England for capital borrowed from her goes to augment the import on debit side of the country. The net balance of trade is to be found

out by taking into account both the visible and invisible exports and imports. If the value of the visible and invisible items of export exceeds that of the visible and invisible items of imports India can be said to have a favourable balance of trade.

India's balance of trade

Credit side	*Debit side.*
1. Value of exports of merchandise.	1. Value of import of merchandise.
2. The capital borrowed by the Government.	2. The Council bills sold by the Secy. of State for the payment of Home charges which are to be redeemed by the Government of India.
3. The capital borrowed by private enterprisers	3. Interest paid by India for capital borrowed
4. Money imported by tourists to meet their expenses in India	4. The freight charges paid to foreign ships.
5. The proceeds of the sale of Council bills by the Secy. of State	5. Remittances made by private persons to meet the expenses of their children in foreign countries.
6. Other remittances made by foreigners to India.	6. Purchase of foreign securities.
	7. Investment made by European merchants and Civil Servants of India in other countries.
	8. Premiums and policies issued by Foreign Insurance Companies.

Sc. 5. Why export is greater than import.

Excess of India's export over import.

If we study the peculiar character of India's foreign trade one important fact is sure to attract our attention and will sometimes puzzle our brain. This is the excess of India's export of merchandise. India usually exports commodities the value of which exceeds the value of its im-

ports. In 1923-24 the excess of export over import amounted to about Rs 97 crores excluding government transaction but if these latter transactions were included the figure would have come down to about Rs. 62'05. In 1928-29 the visible balance of trade in merchandise and treasure was in favour of India to the extent of Rs. 52 crores as compared with Rs 50 crores in the preceding year and Rs 109 crores in 1925-26. It is interesting to note the reason behind such excess of export over imports The reason cannot be explained without reference to the intimate relation that India has happened to bear with England India has to pay Home charges every year to the extent of nearly £34 millions. This obligation on the part of India has reduced her to the position of a debtor country by augmenting the invisible items of imports Again, there are other factors which have been responsible for this excess of exports over import. India's stock of capital is not sufficient for the proper utilisation of her natural resources and she has no other alternative but to borrow a huge amount of capital from foreign countries. The capital borrowed on this account has to be repaid in the long run and the interest charged on that debt has the effect of increasing her liabilities to foreign countries. These factors together with others of similar nature can in a measure account for the excess of India's export of merchandise.

Sc. 6. The peculiarities of India's foreign trade.

The articles that enter into foreign trade have increased owing to facilities of transportation.

Before the excavation of Suez Canal and the introduction of the railways India's foreign trade was restricted to the articles of high value in small bulk that were available near the coast. The articles that entered into foreign trade during that time were few in number. The application of steam power to sea traffic and the development of internal communications have

caused an expansion of the foreign trade of India with the result that almost all the civilised countries of the world have now established their commercial connection with her. The articles that now enter into foreign trade have increased in number; but the trade still retains one of its ancient feature which consists in the importation of precious metals. India's hunger for precious metal still remains unsatisfied

An export of raw materials

There are several other features that characterise India's foreign trade. One such characteristic is the excess of export over import. This as we have already said has been due to the peculiar circumstances under which India at present lies. Secondly, if we study the character of articles that enter into foreign trade we will at once find that India has been the exporter of raw materials and importer of finished products. The commodities that India exports are more bulky and in consequence demand a larger number of ships to carry them. India has for that reason to pay a huge amount as freight charges More ships are to be sent than are required for carrying her imports which consist of manufactured articles The foreigners are therefore decidedly at an advantage in this respect Again, the situation becomes more pitiable when India is found to export the raw materials and import back the finished products made out of them. Thirdly, India is an importer of cheap manufactured articles. This peculiar feature has been due to the poverty of the people which forces them to consume articles of lower value. The foreigners who are aware of the nature of Indian market turn out commodities which can be sold with profit at a very low price. Fourthly, India deals mainly with gold-using countries while the currency in circulation consists of silver. In case there is an unfavourable balance of trade India cannot send its own coins (token) in payment

The freight charges.

of what is due to other countries. The Government of India has to sell sterling drafts at a certain rate and thereby to provide the people with money that may be required for the discharge of their obligation in foreign countries. Lastly, India has followed mainly the free trade policy and manufactured articles of foreign countries can easily enter into India without paying any duty.

Sc. 7. The effect of surplus exports on India's volume of Currency.

The volume of currency expands

We have already seen that India has generally a favourable balance of trade. This favourable balance has one important effect on the Currency policy of the Government Whenever there is a favourable balance of trade the exchange value of Indian currency rises in terms of the currency of the debtor country. The foreigners who have imported commodities and for that reason are under obligation to make payment to India offer higher value to the bills drawn on India and in this way raise the rate of exchange so as to reach the specie import point; when such a stage has been reached the Secretary of State for India intervenes and offers to sell what is known as Council Bills at a certain maximum rate. Ordinarily Council Bills are sold with a view to realise an amount of sterling that would be required for the payment of Home charges but the Secretary of State for India will often be found to sell them for checking the flow of gold into India and at the same time for maintaining the rate of Indian Exchange. The payment is made to India with these Council bills and they in their turn are to be redeemed by the Government of India into local currency. In this way the valume of currency in circulation is expanded and the ultimate result of such expansion is the rise in prices

Sc. 8. Articles that enter into foreign trade.

Exportation of raw materials and importation of finished goods.

In this section we shall have a brief account of the articles that India exports and imports. We have already seen that it is one of the peculiar features of India's foreign trade that she exports raw materials and imports finished products. This feature of her trade at once indicates the backwardness of India so far as the manufacturing industries are concerned.

Cotton exports.

Of the raw materials that India happens to export to foreign countries raw cotton ranks first in importance. India produces a huge quantity of this article and supplies the demand of foreigners. The countries like the United Kingdom, Japan and China have been her principal customers. These countries are developing their manufacturing industries with the raw materials supplied by India while she remains satisfied with the small price that the exported cotton may bring for her.

A study of the recent statistics shows that raw and manufactured cotton have lost its former position. The export of raw cotton has decreased considerably because Indian mills happen to consume large quantity of raw cotton. In 1928-29 the value of raw cotton exported from India was Rs. 66·6 crores as compared with Rs. 91·9 crores which represented the value of export of raw cotton in 1924-25. The export of manufactured cotton also fell in value Cotton thus ceased to occupy the pre-eminent position which it enjoyed formerly and jute came to occupy the first place in the table of India's exports.

Jute.

Jute is another article that India exports in large quantities. India has, as we all know, a monopoly in the production of jute. The export consists of both raw and manufactured jute and the value of manufactured jute exceeds that of raw jute. In 1924-25 the value of raw jute was

about Rs. 30 crores as against Rs. 51 crores which represented the value of the export of manufactured jute. Since 1925 this item of export increased considerably and accounted for no less than 27 percent of the total export trade of India. The total weight of raw and manufactured jute exported in 1929-30 amounted to 1,809,000 tons and its value was Rs. 89,25 lakhs as compared with Rs. 84,23 lakhs of the preceding year. This article is mainly exported to countries like England, Germany, and U. S. A. It is used by those countries in the production of blankets and re-exported to India in this finished form.

Food grains.

Next in order of importance are food grains. These represent about 13% of the total export trade of India. They consist of rice, wheat, barley and such other substances. The export of rice has been subject to less fluctuation than that of wheat because the latter is governed by its world-price. The value of export of rice amounted in 1924-25 to about 22 lakhs of rupees while that of wheat did not exceed Rs. 11 lakhs. Recently, the rice-export trade of India suffered a serious set-back, in 1928-29 the export of rice and paddy declined by 370,000 tons as compared with the total volume of export in the preceding year. This decline in the export trade was brought about by the following causes; first, the surplus available for export from Burma which contributed as much as 85 percent of the total export showed a decline of 196,000 tons. Secondly India proper demanded from Burma a large quantity of rice and paddy. Thirdly, India faced the competition of America, Spain and Italy in the production of rice and this led to a substantial decrease in the demand for Indian rice in foreign markets. Fourthly, inspite of International convention for the abolition of export and import prohibition and Restrictions

drawn up at Geneva in 1927, Japanese Government imposed restriction on the importation of Indian rice to the advantage of rice of Siam which was allowed to enter Japan in accordance with the provisions of Japanese-Siamese treaty of 1924. Fifthly, Indo-China and Siam whose contribution to the export of rice can never be ignored had bumper crops in 1927-28. The principal countries to which rice is exported are Germany, the United Kingdom and Ceylon. The total export of wheat amounted in 1928-29 to 115000 tons as compared with 1,112,000, tons of 1924-25. The United Kingdom alone took as much as 76000 tons valued at Rs. 1,11 lakhs. The export of food-grains other than rice and wheat increased from 257,000 tons to 314000 tons in 1928-29.

Next come the oil-seeds. These are exported with a view to meet the demands of foreigners in connection with the preparations of soap and candle. The exportation of this article has the effect of depriving India of large quantity of manures which would otherwise have been available. These articles represented in 1924-25 as much as 7% of the total export-trade of India and amounted in value to about 34 crores of rupees. The total exports amounted in 1928-29 to 1,328,000 tons valued at Rs. 29,63 lakhs. This fall in the export of these articles has been due to the fact that India's internal demand for these commodities has increased considerably; recently, there has been an increase in the export of ground nuts because they are used in the manufacture of margarine and edible oils. The principal customers of India so far as these articles are concerned are the United Kingdom, Germany, Belgium, France and the United States of America.

Oil seeds.

Why the export has fallen.

The next place may be given to tea of which the foreign demand is increasing every year

Tea.

The quantity of tea exported in 1924-25 was about 340 millon lbs as compared with 291 million lbs which represented the export of this article in 1916-17. The value of the export was in 1924-25 about $33\frac{1}{3}$ crores of rupees. The total area under tea went on increasing in order to keep pace with the increasing demand and in 1928 area under tea was 773,000 crores yielding 404 million lbs. This large supply of tea coupled with a decline in the external demand has led to a fall in the prices of tea. About 89 percent of the total production is exported overseas; United Kingdom alone demands as much as 83 per cent. of the total export from India. Among other customers may be mentioned the United States, Russia and Irish Free States.

Hides and skins. Next we come to hides and skins. The export under this head is gradually increasing every year. Both raw and tanned hides are exported; with regard to the former Germany and the United States are the principal customers of India while tanned hides are mainly exported to the United Kingdom. It is pleasant to learn that the tanning processes are being improved and there is a great possibility of expansion of this trade. In 1924-25 India exported near about 19500 tons the value of which was about $14\frac{1}{2}$ crores of rupees. The export of these articles has increased both in value and quantity. In 1928-29 the total export of hides and skins amounted to 89600 tons valued at Rs. 18,87 lakhs.

Restriction on the opium trade. In India production of opium is a monopoly of the state and the Government of India derives a large amount of revenue from it. Formerly there was no restriction upon the exportation of opium but with the growth of international co-operation export of opium has been regulated by international agreement. The export of opium to any non-Asiatic country other than

United Kingdom has been prohibited. The United Kingdom imports opium from India for medical and scientific purposes and the import certificate system has been introduced with a view to restrict the amount to be exported from India. The Hague convention applied this system to other drugs. In 1926, it was announced that export of opium to other than medical and scientific purposes would be reduced gradually in order that it might cease altogether at the end of the year 1935. The Government of India gave effect to the policy enunciated by the Hague convention and the Geneva convention and the result was that in 1929 the export of opium fell to 70 per cent of the export in 1926.

Fall in the export trade.

There are certain other articles which India exports to foreign countries. In 1929-30 the export of raw wool, oil-cakes and tobacco increased considerably. The export trade in lac made substantial progress and the quantity shipped was 743,000 cwts. valued at Rs. 8,64 lakhs. The export trade in metals and ores, rubber, coffee spices showed a substantial decline both in quantity and value.

We have discussed above the chief articles that constitute India's export-trade. Now we shall engage our attention to a consideration of the chief articles that are imported by India. The chief articles imported by India may be described as follows :—(1) Cotton manufactures, (2) sugar, (3) iron and steel, (4) Machinery and mill works, (5) Railway plants and rolling stocks, (6) Silk, (7) Liquors (8) Hardware (9) Motor vehicles and other articles.

Cotton manufactures ranks first.

(1) *Cotton manufactures* :—Of the imported articles cotton goods occupy a pre-eminent position. The import under this head consists partly of cotton manufactures and partly of twist and and yarns. The Indian mills are found to use foreign yarns in large quantities and in conse-

quence, the import of this item is increasing very rapidly. The causes that have led to the increase in the demand of raw cotton are two-fold. First, there is an increase in the demand of finer cloths and secondly, the prices of Indian cotton are rising higher day by day. The cotton yarns are mainly supplied by the United Kingdom while Japan's contribution is gradually expanding.

How fiscal policy helps such imports

The importation of cotton piece goods has been facilitated by the adoption of Laissez faire principle by the Government. It represented in 1924-25 as much as 33 p. c. of the total import trade of India. It is interesting to observe that value of the imports under this head fell very much during the year 1921-22 but gradually the import-trade began to expand so as to reach the previous position. The value of the cotton goods imported was Rs. 82 crores in 1924-25 as compared with Rs. 100 crores in 1920-21.

Fall in the import and causes of such fall.

The import of cotton and cotton goods decreased considerably in recent times. In 1928-29, import of cotton twist and yarns fell from 52 million lbs. to 44 million lbs. owing chiefly to a reduction in the requirements of the Bombay mill. White goods declined slightly in quantity and value but the import of grey goods fell by 37 million lbs. yards in quantity and Rs. 1,06 lakhs in value, owing primarily to a remarkably heavy reduction in the off-take of bordered grey goods. There were other causes which contributed to the heavy reduction of import trade in these goods. The prices of cotton goods were uncertain and the importers were chary of offering prices which would be favourable to them. The money market was very stringent and the raiyats had little money to buy cotton goods. Other factors contributing to the decline of import trade were the Civil Disobedience Movement and the boycott of British goods.

In 1928-29 the value of cotton and cotton goods imported into India was Rs. 67,15,16,000.

India imports huge quantities.

(2) *Sugar* :—The sugar trade of India has a long history behind it. The sugar industry is a very ancient industry of India and India has certain advantages so far as the production of this article is concerned but still it fails to stand the competition of Java and Mauritius. India still produces huge quantity of this article and at the same time it is found to import large quantities of cane sugar from Java and Mauritius and beet sugar from Belgium, Germany, Austria and the United Kingdom. The value of the import of sugar amounted in 1924-25 to about Rs. 21 crores. The years that followed witnessed a fall in the prices of sugar. This fall was due to the fact that there was over-production and demand for sugar was not sufficient to exhaust the supply of it. In 1928-29 imports of sugar of all sorts amounted to 868,800 tons valued at Rs. 1586 lakhs as compared with 725,800 tons valued at Rs. 1450 lakhs in 1927-28. Another important fact which deserves mention is the decline in the importation of beet sugar. In 1928-29 the quantity of beet sugar was 8,400 tons while it amounted to 176,000 tons in 1926-27.

Fall in the prices of sugar.

The countries supplying iron and steel.

(3) *Iron and steel* :—India imports a large quantity of iron and steel every year. In 1922-23 the value of the import was about Rs. 19 crores but in the year 1920-21 the total value was not less than Rs. 35 crores. The increase in import in 192o-21 was due to the impetus that was given to this trade on account of the rise in the exchange value of the rupee. In the year 1924-25 the total weight of iron and steel imported into India was represented by 864000 tons. The countries that supply India with these commodities are the United Kingdom, Germany, Belgium and U. S. A. but the contribution of the United Kingdom was in 1924-25

as large as to cover almost 50 p. c. of the total import. In 1927-28 import of manufactured iron and steel reached the highest figure but in 1928-29 the import of these articles fell considerably and amounted to 1,165,000 tons.

Machinery and mill-works.

(4) *Machinery and mill-works*:—India has to depend mainly upon foreign countries for the supply of machineries and mill-works. If the foreign countries withhold their supply of these materials the industries will come to a stand-still. Of the several countries that make their contribution in this respect England has the largest share. Its share is as large as 84 p. c. of the total imports. The total value of the import under this head was in 1924-25 about Rs. 15 crores. Imports of machinery and mill-work are increasing gradually with the growth of Indian industries. The year 1928-29 witnessed an increase in the imports of textile and electrical machineries. The total value of imports of machinery, millwork and railway locomotives in that year was Rs. 19,43 lakhs.

(5) *Railway plants and instruments*:—The import under this head is increasing slowly every year. In 1922-23 it represented about 5 per cent. of the total imports of India. The pre-war average was about 4 per cent. of the total imports. The contribution of the United Kingdom is as large as to cover 90 per cent. of the total import of these instruments and the value of the imports was in 1924-25 about Rs. 3 crores. The Government of India purchases a larger percentage of the railway materials required every year from the United Kingdom.

(6) *Silk*.—India's import under this head consists partly of raw silk and partly of finished silk goods. The raw silk is imported mainly from China and Hongkong and the silk manufactures are supplied by Japan, China and

Hongkong. So far as this latter kind of imports is concerned the contribution of Japan has been the largest.

(7) *Liquors*:—In 1924-25 India imported wines and spirits the total value of which was about Rs. 3 crores. The United Kingdom was the largest supplier of liquors.

(8) *Hardware*:—The articles that are included under this heading are generally supplied by the United Kingdom, America and Germany. The contribution of the United Kingdom is larger when it is compared with that of Germany but the latter country is gradually increasing her export. The import of this article from the United Kingdom was valued at about Rs. 3 crores in 1922-23.

(9) *Motor vehicles*:—The vehicles imported into India in the year 1924-25 were 9380 in number and their total value was estimated at Rs. 3 crores. Canada alone supplied as many as 3956 vehicles representing at least 42 per cent. of the total import under this heading. In recent years on account of the lower prices of motor cars and their accessories and of the lowering of import duties the demand for motor cars increased greatly. The number of cars imported in 1928-29 was 19,567 valued at Rs. 4·21 crores. The contribution of the United States and Canada was about 74 per cent. of the total imports under this heading. The other countries from which these vehicles are imported are the United Kingdom, France and the United States.

Increase in imports of cars.

(10) *Mineral oils*:—India has to import a large quantity of these oils every year. In 1928-29 the total imports of all kinds of mineral oils amounted to 242 million gallons valued at Rs. 10,70 lakhs; of the total imports kerosene oils

and fuel oils represented 43 per cent. The contribution of Persia and Russia increased considerably while that of the United States declined rapidly. Other countries which supply India with these commodities are Borneo, Sumatra and Straits Settlements. The imports of Petrol and other motor spirits from Burma to India proper amounted to 45 million gallons as compared with 29 million gallons in 1926-27.

Countries supplyin oils.

Other articles that India happens to import from foreign countries include grains, pulses, flours, artificial silk, paper paste board and stationery, salt, glassware and earthenware. The import of pulses and flour increased in 1928-29 on account of the drought in wheat growing districts of India. The value of imported salt was Rs. 110 lakhs in 1923-24.

(1) A table containing a description of the export trade of India.

	Percentages of the total trade 1909—14	Percentage of the total trade. 1922—23	Percentage of the total trade. 1928—29	Values in crores of rupees in 1928—29
Jute ...	19 p. c.	20 p. c.	27 p. c.	93
Cotton ...	15 ,,	29 ,,	22 ,,	74
Food grain ...	21 ,,	13 ,,	10 ,,	33
Seeds ...	11 ,,	9 ,,	9 ,,	29
Tea ...	6 ,,	8 ,,	8 ,,	26
Hides & skins	7 ,,	4 ,,	5 ,,	19
Other articles...	21 ,,	17 ,,	19 ,,	59

(2) A table showing the character of the important trade of India.

	1909—14	1914—19	1928—29	Value in crores of rupees.
Cotton & cotton manufactures	36 p. c.	35 p. c.	26 51 p. c.	67
Sugar ...	9 "	11	6·35 "	15·8
Iron and steel (Metal & Ores)	7 "	6	10·65 "	27
Machineries ...	4 "	4	7 25 "	18·33
Railway plant and Rolling stock. ...	4 "	5	2	4·9
Mineral oil ...	3 "	3	4·55 "	11·5
Silk ...	3 "	2	1·98 "	5
Hardware ...	2 "	2 p. c.	2	5·1
Other articles	32 "	33	38·83	96·20

(3) A table showing the shares of different countries in India's foreign trade.

Export trade.	1913—14	1922—23	1924—25	1928—29
United Kingdom ...	23	22 4	25·5	21·4
Germany ..	11	7·2	7 1	9·6
Japan ...	9·1	13	14	10 2
U. S. A. of America	8 7	11 2	8 4	11·8
Belgium ...	4·8	3	3·9	5·3
Strait settlement ...	2 7	2 6	2·1	2 4
Other countries ...	40 7	40 6	89	39·3

Imports.	1913—14	1922—23	1924—25	1928—29
United Kingdom ...	64 1	60 2	54·1	44 7
Germany ...	6·9	5·1	6 3	6 3
Japan ...	2 6	6 1	6 9	7
U. S. of America ...	2 6	5·8	5·7	6 9
Belgium ...	2 2	2 7	2 7	2 8
Strait settlement .	1 9	1 9	2	2
Other countries ...	19 7	18 2	22 3	30 3

Sc. 8a. The present position of India's Foreign trade.

World-wide depression and the balance of trade.

At present there is an world-wide depression. Money market is very stringent and the prices of commodities have fallen. In 1929-30 Monsoon was, generally speaking, adequate and well-distributed and the crops were satisfactory. But foreign demand for India's products has fallen greatly on account of the world-wide industrial depression and consequently India's export staples can be sold at lower prices. Thus in 1929-30, although the weight of raw and manufactured jute exported from India only fell from 1809 to 1765 thousand tons its value fell from Rs. 89 to 79 crores. Similar was the fate of other commodities. As a result of this the visible balance of trade in merchandise was Rs. 79 crores in favour of India as against Rs. 86 crores in the year before. The fall in the prices of India's products has told seriously upon the economic condition of the producers and led to a fall in the demand for foreign commodities imported into India. In 1929-30 import trade in India fell both in volume and value. The value of imports declined from Rs. 251·5 to Rs. 239 crores. The imports of cotton yarns and manufacture fell

from Rs. 63·25 to Rs. 59·50 crores and imports of iron and steel fell from Rs. 20 crores to Rs. 17 crores. Another outstanding feature of India's foreign trade is evidenced by the fact of heavy importation of bullion but it should be noted at the same time that net imports of treasure have fallen when compared with the total imports in the previous years.

Heavy importation of bullion.

As to the relative position of different countries in the foreign trade of India it is interesting to note that on the imports side the United Kingdom dominate the situation while on the export side she happens to be the biggest customer of Indian goods. The other countries are trying their best to oust the United Kingdom from her proud position and as a result of this competition her share in the import trade of India declined in 1928-29 to 44·7 per cent as compared with the pre-war share of 64·1 per cent. Japan, Germany and the United State have been competing with England in supplying commodities that India demands. The former countries have one important advantage in this respect that they buy more heavily from India so that they may also sell much. England, on the other hand, buys much less than she sells to India.

Share of the United Kingdom.

Sc. 8*b*. Condition of India's entrepot trade.

Entrepot trade means the re-export trade. India is found to export some articles which she imports from another country. She can conveniently carry on this trade because she is situated in the centre of the Eastern hemisphere. The trade between the far east and the west is carried on through India. Thus India imports cotton textiles from the United Kingdom and exports the same to Persia. This re-export trade of India is gradually declining. In 1928-29 the value of this trade amounted to Rs. 7·83

Value of this trade.

crores as compared with Rs. 18.04 crores in 1920-21. This decline has been due to the establishment of direct trade connection between different countries. The United Kingdom occupies the pre-eminent position even in this trade, her share being 42 per cent of the total trade.

Sc. 9. The stability of the rate of Exchange ; its connection with foreign trade.

The stability of exchange rate facilitates foreign trade.

India has a peculiar type of currency in circulation. It has since the closure of the mint a token currency which is of unlimited legal tender but the foreigners are immune from the jurisdiction of British Courts; hence the Government undertook from the very moment the system was introduced in India the responsibility of maintaining the exchange rate and providing the people with gold when it would be demanded for payment in foreign countries. Such a peculiar currency system has been introduced with a view to avoid the difficulties that followed from the constant fluctuation of the exchange value of silver standard currency with reference to the gold currency. The government found that constant fluctuation of the exchange value of the rupee was not only prejudicial to the interest of the government but also hampered the progress of India's foreign trade; these and similar other difficulties forced the government to introduce the Gold Exchange standard system.

Instability of exchange rate hampers it.

We shall now consider how the instability of the rate of exchange affects the progress of foreign trade. The foreign trade is carried on through exporters and importers. These latter will render their services to the community so long as they get their proper remuneration. The exporters will purchase commodities in terms of rupees and sell them in foreign countries in term of their currency. The sale-proceeds will then be converted into currency of India. If the

rate of exchange is not stable they cannot anticipate beforehand the amount of profit that they have chance to derive out of the transaction. If the rate of exchange is in favour of India or in other words if the exchange value of the rupee rises in term of the gold currency and goes on rising, the exporter who carries on his business during that time is sure to incur a heavy loss because every rise in the value of rupee will bring him fewer rupees for the articles sold in foreign currency. Thus a rising rate of exchange is prejudicial to the interest of exporters and hampers the export trade of India. Similarly, the falling rate of exchange will affect the progress of international trade in as much as every such fall will be in conflict with the interest of importers by adding to their debts in foreign countries. From what has been said above it follows as a logical conclusion that maintenance of the rate of exchange is absolutely necessary so long as the peculiar currency system of India is retained by the government It is interesting to refer to the report of the Fowler Committee so far as it throws light upon this point:—"Not only will the stability of exchange with the greater commercial countries of the world tend to promote her existing trade but also there is every reason to anticipate that with the growth of confidence in a stable exchange, capital will be encouraged to flow freely into India for the further development of her great natural resources."

Sc. 10. India's foreign trade by land.

The countries with which foreign trade is conducted by land.

By the foreign trade of India we have been accustomed to mean the sea-borne trade. This is due to the fact that her trade with the foreign countries by land was too small to deserve notice; but of late years her commerce with the adjoining countries beyond the frontiers has assumed some importance and cannot be ignored.

The principal countries with which such trade by land is carried on is Nepal, Shan States, Afghanisthan, Persia and Tibet. From Nepal India is seen to import rice, ghee, cattle and goats while the Shan States of Burma provide her with a large supply of horses. A lage quantity of fruits and vegetable is imported every year from Afghanisthan and raw wool comes from Tibet. The countries mentioned above are also the principal recipients of India's export. This portion of India's foreign trade is expanding every year. The value of the import so far as the frontier trade was concerned was approximately Rs. 23 crores in 1924-25 as against Rs. 18 crores (approximately) in 1923-24. The values of the export trade in the above two years were about Rs. 19 crores and Rs. 16 crores respectively.

Sc. 11. Internal trade.

The railways have extended the internal trade.

India is a big country with a vast area and population and evidently the internal trade cannot but be of considerable dimension. This internal trade has been facilitated in a great measure by the introduction of railways and other means of communication We will be struck with wonder to find how speedily things are flowing from the ports to the most interior parts of the country and how conveniently are the products of the interior carried to the ports for exportation. The lowering of the frieght charge has its best effect upon the expansion of the internal commerce and has tied distant provinces with one link of co-operation. So far as the inland trade is concerned the premier position has been given to Calcutta. In this respect it can be termed as the biggest of all port towns. The different provinces exchange their products with one another and the result is maximum satisfaction for every one of them. Bengal supplies Bombay with jute, rice and similar other food grains and gets back in exchange cotton

and wheat. The internal trade is gradually assuming importance. It can be sub-divided into three classes:—(1) Trade by Railways, (2) Trade by rivers and 3) coasting trade. It is very difficult to secure an accurate account of these types of trade. So far as the first class of this trade is concerned we can have a rough idea from the returns submitted by the Railway companies of their incomes from goods traffic.

The total income derived from this source amounted to about Rs. 59 crores in 1923-24. The total value of the river-borne and rail-borne as declared by the Blue-books exceeded in 1919-20 Rs. 1000 crores. Next we come to the coasting trade. This means and includes trade from one coast to another both within British India and in native states. The major portion of the trade of this kind is between Burma and the ports on the east coast and along the coast between Bombay and Karachi. The value of this portion of the trade sometimes exceeds Rs. 100 crores.

The coastal trade of India may be developed considerably if steps are taken to build up mercantile marine and effect co-ordination between coastal and railway traffic. In 1928-29 the total costal trade amounted to Rs. 2,20,46 lakhs. The total inland trade was estimated in 1920-21 at about Rs. 1500 crores.

Sc. 11*a*. The various trade centres and commercial organisation.

With the development of means of communication several towns have sprung up in India. The commercial importance of these towns can never be ignored. There are five principal Port towns in India. These are Calcutta, Bombay, Karachi, Rangoon and Madras. The facility of communication which these towns enjoy has led to the localisation of industries and added to the commercial importance of these towns. Of the

Five Port towns are big centres of trade.

five port towns Bombay is the centre of cotton trade while Karachi is famous for its wheat trade and Rangoon for rice, oils and timber. There are several other towns which have developed as centres of trade. Cawnpore where wollen and leather industries have been localised has acquired commercial importance because it stands half-way between Bombay and Calcutta. Amritsar which is famous for its carpet industry is also a big trading centre for piecegoods, skin and hides. Benares has commercial importance because the silk weaving industry has been localised there. There are other towns such as Lahore, Agra, Amedabad, Lucknow, Dacca, Mirzapore, Srinagar, and Nagpore which may be described as important trade centres of India.

Several other centres.

In India as in all civilized countries we find certain commercial organisations. Each trade must have its own organization in order that its grievances may be removed and that a solution of its problems may be arrived at. There are various associations in India each of which represents a particular trade. Thus we find the various chambers of commerce in the principal trade centres of India. The members are mainly Europeans because trade in largly controlled by the Europeans. There are however certain purely Indian organisations such as the Indian Merchant's Chambers and Bureau, Bombay, Marwari Chamber of Commerce, Calcutta. These Commercial Associations have been given right to send representative to the legislature so that they may suggest legislative measures relating to trade and industries and oppose bills which will pre-judicially affect their interest.

Commercial organisation: Their representation in the legislature.

12. How the foreign trade is financed?

As in the internal trade the purchaser of a commodity must have to pay a price for it to

the seller so also in the case of foreign trade the purchaser viz. the importer must make payment to the exporter in a foreign country; but the method of making payment is not and sometimes can not be the same in both the cases. True it is that an importer of a country having gold currency in circulation may pay the price of the imported commodity in term of local currency to the exporting country and the latter will not raise any objection against such method of payment but the situation becomes complicated when the trade is between countries having different standard of value. Such complexity arises when India is connected with a gold-using country by commerce. When the latter wishes to make payment in her local currency India will not probably make any objection but it is quite certain that the gold-using country will not accept payment in the token coins of India. Again, even if India happened to have gold standard with gold currency still we would find that the foreign obligation would not be liquidated by the actual transportation of specie except under emergent circumstances. There are other ways of making payments which are more convenient and for that reason are generally adopted by all countries in discharging their international obligation.

How the Indian importer pays the price of imported commodities.

The foreign payments are generally made through the medium of exchange banks. These banks exist mainly for financing the foreign trade of countries. They have their offices in foreign countries and can, therefore, easily realise the money that will be due to one country from another. Thus if an Indian merchant exports commodities to an English merchant he is entitled to draw a bill of exchange upon the importer. After this has been done he will have to wait generally for three months unless it is a bill at sight. The exporter may be in urgent

The services rendered by exchange banks.

need of fund and cannot wait. In such a case the exchange bank will come to his help, discount the bill of exchange and provide him with funds. This the bank can easily do with profit because it has an office in England to which the discounted bill can be sent for the realisation of the amount due either from the importer himself or from his bank.

In the same manner the English exporter can realise what is due to him from an Indian importer through an exchange bank having offices both in London and in India.

The foreigners will not accept silver rupees.

Let us now consider the problem from the stand point of the importer. He has purchased commodities from a foreign merchant and is a debtor to the extent of the purchase-money. How would he repay his debt? He is an Indian having sufficient amount of rupees in his stock but his creditor will not accept payment in silver tokens. He, however, is not in a quite helpless position. There are the exchange banks to give him necessary aid in overcoming the difficulties under which he finds himself. He can conveniently approach any of these banks having an office in the foreign country and inform it of his eagerness to purchase a bill drawn on such office. The bank accordingly will sell a bill at a certain rate. The bill will then be sent to the foreign exporter who will realise the amount either from the local office of the bank that has issued it or if the bill has been drawn upon another bank from that bank. This method is more convenient in as much as it avoids the expense and risk involved in remitting actual specie to the foreign countries. The exchange banks will be found to sell bills in response to the demand for remittances to foreign countries. Similarly, the English importer who wishes to repay his debt to the Indian exporter will approach a English

bank for a bill drawn upon an Indian bank. In this manner the relation of creditor and debtor that exists between exporter and importer is shifted to the exchange banks. The Indian exchange banks will be considered as debtor to the extent of the amount represented on bills issued upon English banks and the latter will likewise, be debtor for the bills drawn by them upon exchange banks of India. These debts and counter-debts will be mutually adjusted and if any surplus is due to any bank it will be paid by the bank by which it is due. Now the question arises as to the method of paying the balance. (Would the balance be paid by the actual transportation of specie from one bank to another? The answer is in the negative. When the balance is in favour of an Indian bank it will be remitted by purchasing a Council Bill from the Secretary of State and sending the same to the creditor bank of India, but when the balance is due to an English bank it will be liquidated by Reverse Councils which are sold by the Government of India. The Council bills are sold by the Secretary of State with a view to accumulate funds necessary for the payment of Home charges and often they will be sold in response to trade demands because the rise in the rate of Indian exchange cannot otherwise be checked. The Reverse Councils will be sold at a certain maximum rate when the rate of exchange falls due to the unfavourable balance of trade. If these methods of payment cannot be taken recourse to the balance will be ultimately cleared up by remitting gold bullion or sovereign.)

The Secretary of State sells Council Bills.

The Reverse Councils are sold by the Government.

What we have discussed above represents the procedure by which payments between India and England are made; but if the foreign trade of India is studied it will be clear that India has commercial dealings with countries other than

England. Such being the case the question of making payment to foreign countries often arises; the best method of making such payment is to purchase from an exchange bank in India bills drawn upon its own office in the foreign country or if there is no such office upon another bank with which the former bank has business connection.

For Questions and Answers.

(*See at the end of Ch. XIV.*)

CHAPTER XIV

FISCAL POLICY OF INDIA

Sc. 1. The important bearing of Tariff policy on the foreign trade.

The Government of India like other Government has authority to impose custom duties on articles which are exported from the country and imported into it. The custom duties may be imposed for two distinct purposes. A duty may be levied upon imported commodities in order to derive certain amount of revenue out of such imposition. Some times it will be imposed for the purpose of preventing the importation of commodities. In this latter case the duty is described as protective duty. The Government of India has generally been guided by the principle of free trade while imposing duties upon imported articles. We shall consider the effect of this policy on the foreign trade of India and keep ourselves aloof from any question concerning the effect of such policy on industries.

The purposes for which duty is imposed.

The foreign or international trade is based on the principle that nations should so guide their production as to derive the maximum amount of satisfaction. Nature has not favoured every country with equal advantages. Some countries may have advantages for the production of certain commodities while other countries have advantages in other spheres of production. The human endeavour can yield maximum result if each country so adjusts its sphere of activity as to produce only those commodities in the production of which it has comparative advantage over other countries while depending upon other countries for the supply of other commodities

The foreign trade is based on the doctrine of comparative cost.

that it requires. If this principle is followed by every country there can be no restriction of trade and the result will be that a spirit of interdependence will prevail among different nations. Under such circumstances the foreign trade of India will reach the highest point. If on the other hand the import trade of India is resticted by the imposition of a heavy protective duty the other countries will also retaliate with the result that the export trade will fall along with the import trade. The adoption of such policy, though some times desirable will have the effect of reducing the foreign trade of India to the prejudice of the present interest of the consumers.

Sc. 2. The fiscal policy : its connection with industry.

A protective policy should be adopted for India's interest.

The industry of a country specially of India which is still in her infancy so far as the industrial development is concerned is greatly influenced by the policy that the Government adopts in regulating the imposition of taxes upon commodities. There are industries in India which cannot compete freely with the industries of other civilized countries. But they can attain success provided the Government imposes restriction upon commodities that compete with their products. Again, the immediate and temporary loss which may follow from such restriction may be outweighed by a permanent gain which the industries once established will bring to the society. If under such circumstances the Government follows the Laissezfaire principle the industries which are still infant will surely be driven to the wall and ultimately perish. True it is that the consumers may be benefited by the adoption of such policy but there is no guarantee that the benefit so derived will continue for ever. The present relation of friendship that India may have with other countries may give place to one

of enemy with the result that the supply of articles may be stopped. India will then be placed in a very critical position. To avoid these difficulties it is desirable that the Government should regulate its tariff policy so that the articles produced by commercially developed countries may not destroy the infant industries of India.

Sc. 3. A short history of the tariff policy.

In this section we shall have a brief review of the policy of the Government since the commencement of the administration of India by the East India Company. The East India Company adopted a policy which was beneficial to the interest of Great Britain at the expense of India. The British goods were freely imported into India and only nominal duty was levied on such imports; but England did not show the same favour to India during that time and imposed a heavy protective duty with a view to prevent the importation of Indian goods. Her industries were then infant and in consequence, she could not adopt the policy of free trade with profit. Thus British industries aided by the fiscal policy of Great Britain were stimulated by the tariff policy of the East India Company in as much as the latter imposed only a nominal duty on the import of British goods.

The protective policy of Great Britain.

During the company's rule the market for Indian commodities was restricted both externally and internally. The external restriction was, as we have seen above, due to the policy of protection adopted by Great Britain and other countries but for the internal restriction the ruling authority was responsible. The East India Company imposed internal duties of various description and they were so heavy that the industries were forced to reduce their scale of production. These duties were retained by

Market was restricted both externally and internally.

the Government till 1844 when they were abolished.

Let us now turn to study the nature of custom duty. At first the rate of import duty to be paid by British goods was half of that levied upon other foreign goods but after the mutiny this differential tariff was abolished. The rates of duty imposed upon different commodities were subject to change almost every year and they were meant for securing a large sum of revenue for the Government.

In 1862 the duty imposed upon cotton manufactures was 5 p. c. advalorem and that levied upon cotton twist and yarns was 3½ p. c. The duties continued at that rate till 1874 when the Manchester Chamber of Commerce came forward to protest against the imposition of such rates. They represented that the rates were protective in character and for that reason should be abolished. This sudden protest owed its origin to the establishment of several Cotton Mills in Bombay causing in the heart of the Manchester people a fear of losing the Indian market. They demanded an immediate abolition of the duties levied on the goods. A committee was appointed in 1874 to consider their grievances and to make necessary recommendation; the Manchester demand however was unanimously rejected by the Committee.

Manchester Chamber protested.

The new Tariff Act that was passed in 1875 id not abolish the Cotton Duties, but it reduced the general rate of duty. Then came Lord Salisbury whose object was to promote the Manchester interest. He accordingly advised the Governor General of India to abolish the import duties on cotton altogether; but Lord North brook, the then Viceroy was bold enough to defend the cause of India and refused to act according to the request of the Secretary of State. Lord Northbrook had to resign and he was suc-

Circumstance leading to the imposition of Cotton Excise duty.

ceeded by Lord Lytton who came to India with the prime object of repealing the cotton duties; but for certain unavoidable causes he could not satisfy the Manchester people at once. He had to wait for a few years and in 1879 he fulfilled his object by abolishing the import duties on cotton goods of 30 counts and above. The remaining duties were abolished in 1882. For twelve years that followed the year 1882 the cotton goods were imported into India free from all duties. In 1894 the Government was faced with a deficit and the deficit could not be made up except by re-imposing the cotton import duties. Accordingly in December 1894 the import duties were imposed on cotton fabrics and yarns to the extent of 5 per cent; but with a view to pacify the Manchester people the Government had to levy a countervailing excise duty of 5 per cent upon cotton yarns of 20 counts and above produced by Indian mills. Next came the Cotton Duties Act of 1896 which abolished all duties on yarns but imposed a uniform duty of 3½ per cent upon all woven goods whether manufactured by Indian mills or imported into India.

Abolition of excise duty.

The imposition of cotton excise duty became the subject of severe criticism by the public men of India. It affected prejudicially the interest of the Indian mills. An appeal was made to Lord Hardinge for the repeal of such duty in 1916 but the circumstances of the time could not permit such a repeal. Lord Hardinge, however, promised that the Government of India would abolish the duty in near future when the financial condition of the Government would improve. Then in 1922 the Fiscal Commission recommended the abolition of such duty. Out of respect to Lord Hardinge who solemnly promised the abolition of this duty and in pursuance of the recommendation of the Fiscal Commission the duty was abolished in 1926.

We have given above a brief outline of the fiscal policy of the Government so far as the imposition of cotton duty was concerned. We shall now consider the policy of the Government with reference to a few other important commodities of import. In 1859 the Government was faced with a heavy deficit and levied an import duty of 20 per cent advalorem an all articles of luxury. Next year this duty was reduced to 10 per cent. In 1882 Lord Ripon abolished all import duties except those on salt and liquors but as the Government could not meet its expenditure they were re-imposed in 1894. A nominal duty was imposed on iron and steel but still there were many articles such as coal. railway materials which were exempted from the payment of duty. In 1906 the duties levied upon liquors were raised and in 1908 they were so raised as to reach 2 as. per gallon. In 1910 the duty on silver was raised. During the time of war the general rate of tariff was raised from 5 per cent to 7½ per cent. It was raised again and it reached the highest figure 15 per cent in 1923.

Rates of duties upon various commodities.

There is another import duty which we would presently consider. This is the duty on sugar. India had certain advantages in the production of sugar and the Government tried its best to protect this industry from foreign competition. In 1899 a countervailing Sugar Duties Act was passed whereby a heavy duty was imposed upon the bounty-fed sugar of foreign countries; but such an act could not improve the condition of the sugar industry. In 1902 the Government again attempted to restrict the importation of sugar by raising the rate of import duty but this attempt also proved a failure. The foreign sugar is imported into India in large quantities in as much as the foreigners have better advantages and can, therefore, supply sugar at a lower price.

Sc. 4. Subsequent condition of Cotton industry.

We have already seen the Cotton Excise Duty was abolished in 1926: but inspite of this advantage the cotton industry had been suffering from a depression. It had been faced with competition from various quarters and the stabilisation of exchange at 1s. 6d. fostered the importation of foreign goods to the prejudice of the Indian industry. The Japanese competition could not be ignored. Japan's favourable position had been due partly, to the fall in the exchange value of her currency and partly to the double shift system of engaging factory labourers. The mill-owners made a petition to the Tariff Board claiming protection against this Japanese competition. The Board was satisfied and the majority of the members recommended the imposition of an import duty on all Cotton manufactures excepting yarn to the extent of 4 per cent. The Government however declined to accept the recommendation which meant a differential treatment towards Japanese goods. On the other hand it intended to impose a specific duty of 1½ annas per lb. on foreign yarn irrespective of their origin.

The present position of the cotton industry.

That there has come a depression in the cotton industry is evidenced by the fall in the amount of products turned out by the Indian mills. The total production of cotton yarn fell during the year 1926-27 to 687 million pounds, a drop of 4·4 per cent as compared with the previous year. The exports of yarn also declined appreciably. The post-war quinquennium average was 82 million pounds as against 130 millions which represented the war average. The Chinese market reduced its demand for Indian yarns to 9⅘ million pounds in 1925-26. The output of piece-goods also showed a decline of 8 per cent in 1926-27 as compared with that

of the preceding year. The serious depression of the cotton mill industry was brought to the notice of the Tariff Board which in its turn recommended a measure of protection. Again, the Government was faced with a deficit budget and an increase in revenues was urgently necessary. Accordingly the Indian Legislature managed to pass the Cotton Textile Industry (Protection) Act in 1930. The act imposes protective duties on all classes of imported cotton piece-goods to the extent of 15 or 20 per cent advalorem according as they are of British or non-British manufacture, subject to a minimum specific duty of 3½ annas per lb. on plain gray goods of whatever origin; the act extends for a further three years the minimum specific duty of 1¼ annas per lb. on cotton twist and yarn and cotton sewing and darning thread levied under the Indian Tariff Act, 1927. The new duties thus levied on piece-goods are to be in force until the 31st December 1933.

Cotton Textile Industry Act of 1930

Sc. 5. The Fiscal Commission; the Tariff Board.

The economic prosperity of India depends greatly upon the fiscal policy that the Government of India adopts. She is still infant so far as the industrial development is concerned; and the fiscal policy should be wisely regulated so that the foreigners may not destroy the industries which though infant at present would not remain so in future. It is by the prudent regulation of fiscal policy that the Government can protect the industries from foreign competition. This sort of indirect help is much more useful than a direct assistance by a grant of bounty. The Government appreciated the importance of the fiscal policy and appointed a fiscal commission for considering the fiscal problem which is of vital importance in a country like India. The

commission recommended the creation of a Tariff Board to which the claims of industries for protection should be referred. It laid down certain general conditions under which protection should be granted to different industries. The conditions may be stated in the following manner:—

Conditions laid down by the Fiscal Commission for granting protection.

(1) The industry must be one which has possibility of standing the foreign competition in the long run. In other words, it should be such as would not remain infant for ever.

(2) The indutry must be such as cannot proceed without protection. The protective duties should not be imposed upon foreign commodities quite indiscriminately. Before imposing such duty the ruling authorities must determine whether protection is urgently demanded by a particular industry. If there is no such necessity the imposition of protective duty will mean an increase in the profit of the businessmen; and neither the consumers nor the country will gain a farthing by such protection. The industries demading protection must deserve it.

(3) The industry must have certain natural advantages which would at once indicate that it has the greatest chance of success in near future. The success of an industry is intimately connected with the nature of the supply of the agents of production and the nature of the demand for its product within the country. Hence an industry which has to depend upon another country for the supply of raw materials cannot legitimately demand protection.

It should not however be concluded that the above three conditions must be strictly satisfied before an industry should be protected. The principles laid down by the commission were general in character and as such do not govern special cases when the national safety may necessitate the development of certain industries.

Again, care should be taken not to impose duties upon the supply of raw materials because such a measure will be in contravention of the very principle upon which the policy of protection is based.

The recommendations of the fiscal commission were accepted by the Government and the first Tariff Board was appointed in 1923.

Sc. 6. The Tariff Board and it function.

The Tariff Board examiners the claims of protection.

This Board owes its origin to the recommendation of the Fiscal Commission. It acts as an advisory body to the Government and helps the Government in imposing duties in such a manner as will be beneficial to the development of Indian industries. Its function is to consider the claims preferred by various industries for protection and to make necessary recommendation to the Government. The first claim for protection which was placed before the Board for consideration came from the steel industry of India. The Board minutely examined the character of the industry and ultimately came to the conclusion that it satisfied all the conditions laid down by the commission for regulating the protective policy of the Government. A recommendation was accordingly made for the grant of protection to the industry. The Government accepted the recommendation and gave effect to it by passing the Steel Industry Protection Act in 1924. By this act the Government not only protected the industry by increasing the import duty on steel bars but also directly helped the industry by a grant of bounties on certain articles such as steel rails, fish-plates and railway wagons manufactured in India.

The act however was not intended to be a permanent measure. It was to hold good for a period of three years only; before the expiry of

the term the question was again referred to the Tariff Board and the latter upon due consideration of all points recommended the continuance of protection already granted till the steel industry of India would be sufficiently strong to stand on her own legs. The duties levied upon foreign steel are not always the same. The duty levied upon continental steel is higher than that imposed upon British Steel. The reason underlying this differential treatment is that the price of the latter is higher than that of the former.

There are several other industries which have been given protection on the recommendation of the Tariff Board. The claims of the paper industry were investigated by the Board and an act was passed in 1925 by the Government on the basis of the recommendation made by the Board in this connection. This act protected the Bamboo Paper industry by imposing a duty on printing paper of certain kinds and writing paper of all kinds to the extent of one-anna per pound. The duty on sugar and cigarettes have been raised on the same principle.

Industries protected.

The claims for protection preferred by the coal industry were placed before the Board for consideration but they were rejected on the ground that the foreign coal is imported into India in insufficient quantity and that imposition of a duty on such coal would be prejudicial to the interest of the industries that used it.

Sc. 7. Export duty.

Besides the import duties referred to above the Government has imposed duties on the export of commodities for revenue purposes. In 1859 the various articles that were exported had to pay varying rates of duties. Grain to be exported had to pay a duty at the rate of 2 as. per maund while on indigo was levied a duty

Rates of duty on different articles.

of 4 per cent. and other articles were charged at the rate 3 per cent. In 1916-17 a duty was levied upon raw jute to the extent of Rs. 2-4 as. per bale of 400 lbs. and that levied upon jute bags, rope, cloth, yarn and twist was Rs. 20 per ton. The duty levied on tea was Rs. 1-8 per 100 lbs. This duty on tea was abolished in 1927-28. 1917-18 the export duty on jutes was doubled. In 1919, 15 per cent advalorem duty was imposed upon raw hide. This was subsequently reduced to 5 per cent. The Finance Act of 1930 reduced the export duty on rices from 3 as. to 2 as. 3 pies per mand. One important point that deserves consideration at this stage is whether an export duty should be levied upon food grains. India we know, is a country that can export food stuff and raw materials in exchange for the manufactured goods that she imports. India's contribution in this respect has been as large as to cover about 20 per cent. of her total export although she has to pay an export duty at a certain varying rate. Now what is ordinarily the effect of such duty? Since India has not a monopoly in the production of food stuffs the incidence of this export duty will fall upon her and it will at the same time reduce her export-trade. On the other hand the price of food stuff will fall in India because of increased supply of it due to the reduction of foreign demand. The agriculturist will suffer greatly because every fall in the prices of food stuff will bring them lower income. The poor persons other than cultivators who spend a very insignificant portion of their income in purchasing foreign commodities will no doubt be benefited because they will be given an opportunity of purchasing food stuffs at a lower price but this gain will be at the expense of the cultivators whose loss from the export duty on wheat alone has been calculated at Rs. 16 crores.

Effect of exports duty on food grains.

The import of foreign articles will be reduced in as much as it is export that pays for import and in consequence, people who spend a large percentage of their income in purchasing foreign articles will be affected. Again, if the duty that is at present levied upon food stuff is withdrawn the exportation of food stuff will increase with the result that there will be a rise in its price. Such an increase in export will have its worst effect upon the poor labourers.

When export duty should be imposed.

In normal times India has an abundant supply of food stuff and the amount which she exports is insignificant relatively to the total production. Such being the case India may not require any restriction upon the exportation of food stuffs but in abnormal times when there is a failure of food crops. Efforts should be made to restrict export by the imposition of heavy export duties food upon crops.

Should export of raw-material be restricted?

India is found to export large quantities of raw materials such as jute, cotton and hide. The question is whether export duties should be levied upon these raw materials. Several arguments have been advanced against the free exportation of raw materials. It is argued that unrestricted exportation of these materials will lead to a rise in their prices and the cultivators will think it profitable to use their land in producing these commercial crops. Thus production of non-food crops will be neglected. There is no doubt some truth in the argument but there is no immediate cause of anxiety in view of the fact that the area under non-food crop is exceedingly small.

Export duty will protect industry.

Again, it has been argued that free exportation of raw materials will stimulate the production of non-food crops and the result will be that fertility of the soil will be exhausted. True it is that free exportation of oil seeds and oil cakes will reduce

the supply of manures and the Indian agriculturists will lose much on account of the fall in prices which will follow from such restriction.

Export duty and rise in price.

Lastly, it has been argued that free exportation of raw materials will raise their prices and hamper the progress of the infant industries. There is some force in the argument. The cost of production will no doubt decrease if the raw materials are available at lower prices but it is advisable that industries will get better protection if heavy duties are imposed upon foreign articles that compete with products of Indian industies.

Sc. 8. The principles of Free trade and Protection.

Advantages of free trade policy.

The doctrine of free trade is based upon one important fact that nature has not provided every country with an equal opportunity of producing any and every article that it requires. There are countries which have advantages in certain spheres of production while there are others having opportunity in other spheres. Such being the state of things it will be to the interest of a particular country to restrict its efforts to the production of those commodities alone in producing which it has comparative advantages. The same principle should also be followed by other countries. Such restriction on the production of commodities by a country cannot be possible unless there is a free international trade between nations. Such trade will create a spirit of co-operation and interdependence among the different countries and the result will be that peace and prosperity will reign in this world. The economies of production will increase because a country will direct her productive resources into those industries in which she has comparative advantages and produce not only for her own self but for other countries which

have no advantage in those industries. The scale of production will thus be enlarged with the result that the economies derived from large-scale production will be enjoyed not only by the country that produces but by others that depend upon the former country for the supply of the article produced. Thus we see that the policy of free trade if unanimously adopted by every country will secure the maximum satisfaction for the people of the world; but it should be noted in this connection that the theory of free trade as enunciated above is not to be adopted without qualification. The different countries of the world are not in the same state of economic development. In some countries e. g. in Europe the industrial revolution commenced earlier but there are counties which are still in a state of transition. India with whose development we are at present concerned falls within the latter group of countries. She is just passing from the state of agriculture to one of industry, her industries are still infant and in consequence, will be driven to the wall if the well established industries are allowed to compete freely with them. There are certain industries in which India has chance of success provided the Government takes care to give them temporary protection from foreign competition. It will not be safe to take into consideration the present position of an industry only but the fiscal policy should be moulded with reference to its future possibility. A country may not be in a position to compete with another country in the production of certain commodities but that cannot conclusively show that it will remain in that state for all time to come. If it has natural advantages for the production of a commodity its other difficulties can be removed very easily when efforts are made for their removal.

The limitation to the free trade policy.

It is often argued that the protection will affect the interest of consumers by raising the

prices of articles. There is some truth in this argument. But a country should look not to the present interest only but also to the future interest. It is sometimes prudent to make a temporary sacrifice so that a permanent benefit may follow. The foreigners may supply commodities from various motives; often they are prompted by selfish interest to supply commodities at a price which is cheaper than what prevails in their own country. This present loss may be incurred with a view to derive an ultimate gain when the industries of India have been destroyed. Even if we assume for the sake of argument that they are influenced by no sinister motive would it be prudent to depend absolutely upon a foreign country for the supply of commodities which are urgently necessary for national safety? The answer is in the negative. The present relation between nations may not continue for ever. For unavoidable reasons a war may break out and the supply of articles may be withheld. Thus we find that the policy of protection should sometimes be followed so that India may achieve all-round success in the sphere of industry and may avoid the present state of economic subjection.

Why protective policy should be adopted.

Again, it has been argued as against the protective policy that imposition of protective duty will give rise to a spirit of retaliation. If India imposes protective duty upon foreign commodities the foreigners will like-wise impose heavy duty upon imports from India and thus the demand for Indian commodities will be reduced to a very great extent. But so far as India is concerned she has the least fear of such retaliation because her export consists mainly of food stuff and raw materials without which the industrial prosperity of foreign countries will be at stake. Again, even if such retaliation takes place India will not be affected in the least be-

How much there is fear of retaliation.

cause the diminution in the export of raw materials will facilitate the development of her industries.

It should not however be thought that protection would promote the interest of the producers at the expense of the consumers. It no doubt restricts foreign competition but if the internal competition is kept alive the producers will not be in a position to derive abnormal profits by raising the price of articles. Thus protection is meant for the benefit not of consumers alone but of the whole country.

What kind of protection India demands.

Again, a protective policy, it has been contended, would destroy the foreign trade and deprive the country of the moral and economic benefits arising from such trade, but this argument cannot stand. The people of India do not speak of protecting any and every industry, nor do they say that India should make herself a self-sufficing unit without having commercial relation with any other country of the world. What India desires is that her infant industries should be protected before the free-trade policy is adopted. The latter policy could have been without any qualification if the Indian industries had been on the same level with the industries of other countries. What India demands is protection with discrimination. With this limitation India is willing to adopt the free-trade policy and to carry on the foreign trade.

Government's duty.

The present economic position of India cannot be improved unless the Government comes forward and regulates its fiscal policy so as to promote the interest of Indian industries. The Indian capitalists are generally very shy. They cannot take risk as boldly as the businessmen of other countries can do; but this shyness has been magnified by the indifferent attitude of the government towards industries. If the

government of India takes keen interest in the development of industry and is ready to protect them whenever the legitimate claims are preferred for such protection the shyness will be removed to a very great extent and capital will flow to the industries in large quantity.

Sc. 9. What policy should the Gevernment adopt.

The present miserable condition of India is due to the absolute dependence upon agriculture and her economic prosperity cannot be ensured unless and until there has been a diversification of industry. The Fiscal Commission after studying the economic condition of India arrived at a priliminary conclusion which may be stated in the following lines—"the industrial development of India has not been commensurate with the size of the country, its population and its natural resources and that a considerable development of Indian industries would be very much to the advantage of a country as a whole."

Fiscal Commission's view of India's condition.

The above development cannot be effected unless the government protects the infant industries by imposing protective duties upon foreign commodities. Now the question that arises is as to the nature of the protective policy that the government should adopt to safeguard the interests of Indian industries. Is it desirable that there should be out and out protection? Our answer is in the negative. India has not the possibility of success in any and every sphere. There are certain industries in which India has no chance of success and it will be baneful to the interest of India if such industries are protected. So far as these industries are concerned Government will not have to impose any protective duty. It may however impose revenue duty if it likes to do so. But there are industries in which India has certain

The policy of discriminating protection.

advantages and these will ultimately flourish if proper step is taken to protect them so long as they are infant. This brings us to the question of discriminating protection as recommended by the Fiscal Commission. The protection should be granted with care and caution. Those industries alone should be protected which possess natural advantages showing possibility of their development in future. The claims should be referred to the Tariff Board for consideration. If the Board is satisfied that the industry can legitimately demand protection it should make necessary recommendation to the government. The Fiscal Commission prescribed certain conditions under which protection should be granted. These are:—(1) The industry claiming protection must have natural advantages which will guarantee its success; (2) The industry must be urgently in need of protection without which it cannot continue its existence and (3) the industry must be one which will not remain infant for ever; it must in the long run be in a position to compete freely with similar industries of foreign countries.

The policy of discrimnating protection.

Again, in granting protection the government should always be guided by the principle of minimum sacrifice. There is no doubt that people must have to make some temporary sacrifice for some permanent benefit in future. The protective policy should be guided in such a manner that the price level will not be seriously affected by it. Again, the time during which protection will remain in force will be neither too long nor too short. The protective duty imposed upon foreign articles should be abolished as soon as the industry has acquired sufficient strength to face the competition of cheap foreign articles. If this is not done the interest of the consumers will be seriously affected.

There is another method which the government may sometimes profitably adopt in order to protect the industries from foreign competition. This consists in granting bounties to the industry. Foreign countries have sometimes been found to take recourse to this method of protecting industries. This method has one important advantage in this respect that it does not raise the price of the articles which the industries happen to produce. This method throws burden upon the Government. The Government must increase its revenue by taxation in order that it may discharge its responsibility in this connection. Thus ultimately the burden falls upon the people. Again, this method requires an administrative machinery which is sometimes too costly. The Government of India has granted bounties on several occasions. In 1924 certain steel manufacturers e.g. steel rails and fish plates were favoured with the grant of bounties at certain rates. The Tariff Board suggested the grant of bounties on the cement industry but the Government did not accept the proposal. The Government can sometimes remove the difficulties of industries by supplying them with capital and furnishing them with necessary information concerning the market of their products.

Sc. 10. Protection and different classes of people.

The imposition of protective duty upon foreign commodities that compete with the infant industry of India is urgently necessary for the economic prosperity of the country ; but the price of the product of the industry protected will rise to the extent of the duty levied upon it. What then will be the effect of such protection upon the different sections of the community ? The poorer classes will not be very much affected

because their means permit them to consume very little of imported articles. If, however, an import duty is imposed upon foreign cotton goods they will have to suffer to a certain extent in as much as they cannot do without a quantity, however small, of such goods. The agriculturist may also suffer to some extent but their sacrifice can be reduced if protection is granted with discrimination. The middle-classes will have to make greater sacrifices because they consume imported articles in larger quantities. Protection should be granted with discrimination so that the sacifice may be reduced to the lowest limit.

How different sections of the community will be affected.

Sc. 10(a). Protection and different industries.

(i) Cotton industry :—During the last Great War the prices of cotton goods rose very high partly because imports of cotton goods fell greatly and partly because export of cotton goods increased abnormally. This boom lasted for about six years. Then came a serious depression in the cotton industry. The demand for Indian goods in foreign countries has fallen. China which was formerly the best customer of Indian goods has diminished her purchase from India. Again, the internal demand for cotton goods is being supplied by Japan which can afford to sell cotton goods at lower prices. The depreciation of Japanese exchange has stimulated her exports to India and thereby affected the interest of Indian mills. The defective organisation of the mills and the unscrupulous policy of the managing agents have played not an insignificant part in bringing about the present depression of cotton industry. Lastly, we cannot ignore the effect of the artificial stabilization of the exchange ratio at 1s. 6d. upon this industry. The depression has been particularly acute in Bombay where the mills have to face the competition of up-country mills.

Depression in the cotton industry : its causes.

Tariff Board's recommendation.

The cotton mills of Bombay demanded protection from the Government which in its turn referred the question to the Tariff Board for consideration and necessary recommendation. This was done in 1926. The Board after suggesting how the industry could be organised on an efficient principle recommended that cotton manufactures other than yarn should be protected by an addition of 4 per cent to the existing duty on corresponding imports for three years and that a bounty should be granted on the spinning of higher counts of yarn for four years. There were also certain other recommendations regarding the free exportation of machinery and mill stores and the appointment of trade commissioners. The Government, however, did not give effect to the recommendations concerning the imposition of import duty and the grant of bounties but removed the duty imposed upon machinery and mill-stores. There was serious agitation among the mill-owners and at last the Government had to reconsider the question. As a result of this reconsideration two acts (Cotton Yarn Amendment Act and the Indian Tariff Act) were passed in 1927. By these two acts the duty on cotton twist and yarn was fixed at one and a half annas or 5 per cent advalorem whichever was greater and the list of mill-stores to be exempted from duty was extended. The acts were to be in operation till March 1930. The competition of Japan manifested itself in naked form and the Government of India had to consider the problem again. The Tariff Board again emphasized upon the granting of substantial assistance to the mill industry. The Government appreciated the situation of the cotton mills and with a view to afford adequate protection to the cotton industry passed the Cotton Industry Protection Act in 1930. The

Act of 1927.

Act of 1930.

provisions of this act have been already discussed.

(ii) Iron and steel ;—The economic prosperity of India is intimately connected with the development of this industry. The industry is still infant and cannot compete freely with the established industries of other countries although India has an abundant supply of iron ore and coal. The industry can flourish only if the industry is protected by the imposition of a heavy protective duty on foreign goods. The Tariff Board to which the question of protection was referred recommended protection for this industry. Accordingly, in 1924 the steel Protection Act was passed. This act increased the import duty on certain articles manufactured from steel and made provision for the grant of bounties upon steel rails, fish plates and railway wagons produced in India. This act was to be operative for a period of three years. The engineering industry was protected by the imposition of higher duties on fabricated steel. The manufacture of tin plate, steel wire and wire rails was protected by a specific import duty of Rs. 60 per ton. These measures could not give adequate protection to the steel industry in view of the fall in the price of continental steel and maintenance of the high exchange value of the rupee. The Tariff Board recommended increase in the protective duties but the Government made provision in 1925 for the grant of a bounty at the rate of Rs. 20 per ton on steel ingots subject to certain conditions. The act of 1924 ceased to operate in April, 1927. The Tariff Board, again, recommended a further protection for seven years. Accordingly a bill was introduced in the Indian Legislature in 1927 providing for the imposition of differential rates on British and continental steel. The Bill was passed into act with this safeguard

Natural advantages.

Tariff Board's recommendation and Government action.

Act of 1924

that Government would not be allowed to reduce the duty imposed upon British articles. In 1928 another Steel Protection Act was passed. This act provided for maintaining a duty at 10 per cent on wagons and underframes and for placing of all orders in India. The industry has developed considerably on account of the protection given by the above legislations but the industry in still infant and requires protection for several years more.

Prospect of the Tanning Industry.

(iii) Tanning and leather industries :—India possesses an abundant supply of raw hides and skins and exports a large qnantity of them to Germany and U. S. A. The manufacture of superior classes of leather according to European method commenced in the middle of the nineteenth century but the industry largely depended on the army for orders. During the last Great War the industry attained considerable success under in direction of the Indian Munitions Board. The chrome process of tanning which was introduced in India in the beginning of the twentieth century was profitably taken recourse to in supplying Great Britain with sufficient quantity of leather. This war time boom showed the possibility of success of this industry but a depression came in when the war was over. The industry demanded protection and in 1919 an export duty of 15 per cent. on hides and skins was imposed with a rebate of 10 per cent. on hides and skins exported to other parts of India. The fiscal commission did not approve of this measure which could not give protection to the industry. The Government, therefore, reduced the rate of duty to 5 per cent. and abolished the 10 per cent. rebate in 1923. As a result of the recommendation made by the Fiscal Commission and the Taxation Inquiry Committee for the abolition of this duty the Government proposed the abolition in the

Export duty on raw hides and skins.

Reduction to 5 per cent.

Finance Bill of 1927 but the Assembly rejected the proposal. The Government have recently appointed a committee to consider the proposal of substituting the export duty by a cess and its administration by a committee.

(iv) Paper making industry :—This industry was introduced in India as early as 1870 when the Bally mills were established and began to turn out large quantity of machine-made paper. Shortly after Titaghur Paper mills came into existence. In the nineteenth century several other mills were established ; the Raniganj Paper mill which was established in 1891 is now contributing much to the production of paper. The Indian Paper Pulp Company was established in 1922 and began to manufacture paper from bamboo. Recently, two other mills have been established one of which viz. the Karnatak Paper Mill is now engaged in producing paper from paddy, straw and bamboo. The most important raw material which is used in the manufacture of paper is Sabai grass; although India possesses a large quantity of raw materials this industry is suffering greatly for inadequate supply of coal and heavy cost of chemicals. The cost of production is comparatively high and the result is that India imports large quantity of paper from Germany, Scandinavia and England.

Important paper mills.

Raw materials of paper.

The question of protecting this industry was referred to the Tariff Board in 1924. They were convinced of the prospects of the manufacture of paper from bamboo and recommended a protective duty of one anna per pound for five years on certain classes of printing and writing-paper. They always recommended a guarantee of Rs. 10 lakhs to the Indian Paper Pulp Company at Naihati. In accordance with the recommendation the Government passed an act in 1925 and thereby gave effect to the first recommendation.

Tariff Board's recommendation.

The Act of 1925.

Cement Industry

(v) Other industries:—We have discussed the question of protection with reference to the principal industries and the steps that the Government has taken inorder to protect them. There are several other industries which have been the subject-matter of enquiry by the Tariff Board. The Cement Industry which was introduced in India in the beginning of the twentieth century made remarkable progress during the war time. There are three important Cement Companies viz. The Indian Cement Company (Kathiwar), Bundi Portland Cement Company (Rajputana) and the Katni Cement and Industrial Company. These Companies have increased their production in response to the demand for Cement; but India is at a disadvantage in the production of this article because the factories are situated at a great distance from the coal fields. The Tariff Board to which the question of protection was referred recommended that Government should pay bounties to this industry under certain condition. The Government did not accept the recommendation.

Tariff Board's recommendation.

Ink industry.

The Tariff Board examined the possibility of the Ink Industry (Printer's ink) on the application of the Hooghly Ink Company and recommended an increase in duty from $2\frac{1}{2}$ per cent. to 5 per cent. This recommendation was accepted by the Government and given effect to by the Tariff Act of 1926. The Tariff Board considered the question of protection of Coal Industry and came to the conclusion that the industry did not require any protective duty to be imposed upon foreign coal. Another important industry to which the attention of the Tariff Board was drawn is the Match Industry. This industry is controlled by the Swedish combine and the Tariff Board did not recommend for protecting Indian concerns against this foreign company. The Board, however, recommended the imposition of

Match Industry. The Act of 1928

protective duty so that the foreigners might not destroy this infant industry of India. In 1928 the Match Industry Protection Bill was passed. This Act provided for the imposition of a Protective duty of Rs. 1-8 levied upon a gross of boxes containing 100 matches.

Sc. 11. Inter-Imperial Preference and India.

By the expression "Inter-Imperial Preference" we mean nothing more than a differential treatment to be accorded to the countries within the British Empire so far as the international trade is concerned. This scheme came for the first time out of the fertile brain of Sir Joseph Chamberlain. The object of this scheme was to turn the whole British Empire into a self-sufficient unit free from any economic subjection. Again, the formulation of this scheme had been to some extent due to the unsympathetic treatment that exports from England received from foreign countries. England followed the principle of free trade and did not impose any duty upon foreign goods other than that for revenue purposes merely; but the foreigners imposed heavy duties upon British commodities with a view to protect their industries. This want of reciprocity was one of the causes that brought the question of Imperial Preference into prominence. Again, we cannot ignore the political motive that lies behind the scheme. If each part of the British Empire treats the other parts more favourably than it treats the foreigners, evidently there will develop in course of time a sense of unity and solidarity and this commercial unity will ultimately facilitate the political progress of the whole Empire.

The object of the scheme.

The above scheme suggests the adoption of free trade policy within the Empire and recommends the interchange of commodities between different parts without any duty or with only

nominal duty but a different sort of treatment should be accorded to foreigners. The foreign commodities will have to pay heavy duties before they can enter British Empire. The industries of the Empire as a whole will thus be protected from foreign competition. The different parts will be benefited in so far as they have been suffering from foreign competition but if a particular part of the Empire does not suffer from the competition of a country outside British Empire it will not derive much benefit from the adoption of the scheme. Let us take a concrete case. If the scheme is adopted by India it will have to import commodities from parts of the British Empire without any duty or with a nominal duty for revenue purposes while it will have to impose heavy protective duties upon similar commodities from foreign countries. Now under these circumstances if India suffers mainly from foreign competition (meaning by the expression competition of countries other than those forming part of the British Empire) it will no doubt be benefited but if its industries greatly suffer from competition of the United Kingdom or other parts of the British Empire it will not derive much benefit from the adoption of the scheme.

The benefit that the scheme may bring.

During the war time the scheme found many supporters. The war manifested clearly the economic position of the British Empire and the disadvantage that generally followed from dependence upon foreigner for the supply of articles that are urgently necessary for the economic and political development of the Empire. The importance of economic self-sufficiency was fully appreciated by the political leaders of the time.

The supporters of the scheme during the War.

It should not however be thought that the scheme of Imperial preference is altogether inconsistent with the idea of protecting the

industries of a country forming part of the British Empire from the competition of other parts. This fact will be clear it we study the resolution of the colonial conference of 1902. The conference held that it was not possible at that time to adopt the policy of free trade as between the United Kingdom and its dominion. The dominions should not therefore be compelled to import commodities from the United Kingdom or from one another without imposing any protective duty. The dominions should have the right of protecting their industries from any foreign competition as well from the competition of a country included within British Empire. On the other hand the dominions would treat the commodities imported from the United Kingdom more favourably by imposing lower duties on such commodities. Such preference would be given only if it does not interfere with the economic interest of the country and if the United Kingdom in its turn would agree to accord the same sympathetic treatment. The Imperial preference does not therefore mean preference given at the expense of the country giving the same; on the other hand it means a more sympathetic treatment to be accorded to the countries forming the British Empire as against the foreign countries.

The scheme does not mean the adoption of free trade policy within the Empire.

The Colonies were the first to give effect to the scheme to a certain extent by reducing the duties levied upon British goods. In 1900 the preference given by Canada was raised to 33½ per cent. The other dominions commenced to show favour to British goods in pursuance of the resolution of 1902. The United Kingdom adopted the scheme for the first time in 1919 because the utility of such scheme was fully appreciated during the war time.

Let us now discuss the advisability of the adoption of this scheme by India. At the very

The opinion of the Fiscal Commission.

outset we think it proper to state the opinion of the fiscal commission on the point. The opinion runs as follows—"India cannot accept the principle of Imperial Preference until she has attained responsible government and is able to regulate her fiscal policy by a vote of a wholly elected legislature." The reason underlying this opinion is that interest of India will be affected unless the scheme is adopted by the will of the people as represented in the legislature. The question of Imperial Preference is vitally connected with the economic development of India and hence adoption of the scheme will be possible only when the acts of the legislature represent possibly the views of the electorate.

Effects of the adoption of scheme upon India.

We shall next consider the economic effects that will follow from the adoption of this scheme by India. If India adopts this scheme she will have to impose heavier duties upon manufactured commodities that are imported from foreign countries with the result that the price of these commodities will rise. The consumers of these articles will have to suffer on that account. In the second place, it should be noted that the imposition of such heavier duties upon foreign commodities may give rise to retaliation and the foreigners may restrict the importation of Indian goods into their countries. In this way India's export trade may be reduced; but it should be remembered in this connection that India's export chiefly consists of raw materials and food stuffs and the foreigners will think twice before imposing heavier duties on such articles as they enter into their country. Though this is true yet we cannot be sure that no retaliatary measures will be taken by the foreign countries. Again, the Government of India will have to sacrifice a large part of its revenue if it has to show such favourable treatment to the United Kingdom

and other countries that are included within the British Empire.

The amount of benefit that India may expect to derive by the adoption of the Imperial Preferential scheme can be determined by considering the nature and character of her export to the United Kingdom and other parts of the British Empire. The Imperial Preference brings higher benefit in the case of manufactured export than in the case of export of raw materials and food stuffs. If a country imposes higher duties on these latter kinds of things it will do so to the prejudice of its own economic development on the other hand the lowering of such duty will some times encourage the exportation of those commodities and thereby retard the progress of industries of the country that exports. India is a country whose exports consist mainly of raw materials and food stuffs. Such being the case she has not much to gain by adopting the scheme of Imperial Preference. Again the gain, if any, is restricted to that part of the export trade which has reference to the United Kingdom and other parts of the British Empire. If export this part is compared with the total export trade of India it cannot be more than 35 per cent. Thus ultimately, India may derive some benefit from this portion of the trade; but if the whole situation is taken into account it will be seen that a large deduction is to be made out of this part of the export trade because India happens to have a practical monopoly so far as certain main items of her export such as tea, jute etc. are concerned. Again, there are certain other articles of export in which she has her competitors within the Empire and in consequence, she will derive little or no benefit from the exportation of those articles. Coming to the question of import we find that the adoption of this scheme will seriously affect the infant industries of India.

How the gains and lo are to be calculated.

The imports from the United Kingdom and other parts of the Empire cover as much as 54 per cent. of the total import. Such being the state of things preferential treatment of goods imported from other parts of the British Empire will tell upon the indigenous industries of India. On the other hand heavier duties upon foreign commodities will raise their price to the prejudice of the consumers. Considering all these factors we find that India cannot expect to gain much if she adopts this scheme. These were the main reasons why India refused to join the Imperial Preferential scheme in 1903.

Whether India can afford to give preference to British goods.

There are several Indian articles which have been allowed to enter the United Kingdom only on payment of a preferential rates; of course, such preferential treatment has not brought immense benefit to India still it cannot be denied that she has been benefited to some extent. Now the question arises as to whether India can afford to give some preference in return. This leads us to the consideration of the manufactured articles that are imported into India from the United Kingdom and the nature of foreign competition to which the imports from the United Kingdom are subject. The imports from England which are affected by foreign compitition consists chiefly of machinery, motor cars, iron and steel, cotton fabrics, tobacco and rubber goods; but preference cannot be given to each of these articles without prejudicing the interest of India. It should be borne in mind that the imposition of preferential tariff upon British commodities may be justified if the interest of India is not seriously prejudiced thereby. Proceeding on this principle we find that India can afford to accord preferential treatment to commodities like cigarettes and rubber without seriously affecting the interest of India.

Questions and Answers.

1. What are the peculiarities of the foreign trade of this country Account for the permanent excess of exports over imports and indicate the effects of this necessity of increased exports on India's currency policy. (C. U. 1909, 1911, 1912 and 1922—See Ch. XIII, Secs. 4 and 5.)

2. State the so-called 'infant industry argument' for protection. Is such protection necessary for the India of to-day? Would you favour the inclusion of India in a system of inter-imperial preferential duties? (C. U. 1909, 1910, 1212.—See Ch. XIV, Secs. 7 and 8.)

3. Give a general idea of India's imports and exports and indicate in which direction India should cultivate her exports. (C. U. 1910. See Ch. XIII, Sec. 6.)

4. Public opinion in India is over-whelmingly protectionist (Less Smith) State the chief arguments on which protection is advocated for this country; attempt a careful examination of Indian Protection. (C. U. 1911 See Ch XIV, Secs. 7 and 8.)

5. Draw a rough statement of debits and credits of India with foreign countries and explain how they are adjusted. Are there any items on the debit side to which you might take exception as constituting a drain on the economic resources of India? (C. U. 1915 See Ch. XIII, Sec. 2 also Chapter on Public Finance.)

6 India is called a debtor country on account of her many foreign obligations What is the nature of these obligations Explain the process by which they are discharged. (C U 1917, See Ch. XIII. Sec. 3.)

7. Analyse India's exports. Hence examine the arguments for and against protection. (C. U. 1910, See Ch XIII, Sec. 7.)

8. State the probable advantages or disadvantages of tee inclusion of India in a Scheme of Imperial Preferential Tariff? (C. U. 1921, See Ch. XIV, Sec. 11.)

9 Discuss the advantages and drawbacks of the imposition of protective duties on the manufactured imports of this country. (C. U. 1922, See Ch. XIV, Sec. 8)

10. It is some times suggested that heavy duty should be levied on the export of food grains from India with a view to conserve India's food supply for her own use. Argue the case for and against such a proposal. (C. U. 1923, See Ch XIV, Sec. 7.)

11. Examine the probable effect of a policy of protection on the economic condition of the agricultural population of this country. (C. U. 1924, See Ch. XIV, Sec. 10.)

12. "In the modern era of international commerce every civilized nation makes a number of payments to foreign countries and receives a number of payments from foreign countries' consider the different heads

under which these payments are made and received by India. (C. U. 1925, See Ch. XIII, Sec. 3.)

13. State the circumstances in which you would decide to protect an Indian industry against foreign competition. What are the different methods by which you could do it? Discuss the relative merits of each. (C. U. 1930. See Secs. 5 and 9)

14. Describe the chief features of India's foreign trade and account for the normal excess of her export over her imports. (C. U. 1931, See Secs. 5 and 6.)

15. Do you think that it will be to the best interests of India that she should now be included in any Scheme of Imperial Preference? Give reasons for your answer. (C. U. 1931. See Sec. 11)

CHAPTER XV.

CURRENCY.

Sc 1. Early history.

In the primitive community use of money was unknown. Things were exchanged for one another. There was thus the barter system of exchange. As civilisation began to advance the disadvantages that followed from such a system of exchange were keenly felt by the people and in consequence, the system had to be replaced by a monetary system of exchange. Evidences of various character prove that India has been using money as a medium of exchange since the time of which we have historical record. Perhaps it will be no exaggeration to say that India adopted this system at a time when the civilized nations of the present world were completely ignorant of its use. The reference of metallic system of exchange in the vedic writings as well as in the religious codes of Manu bears witness to the fact that metallic money was used in those days.

The reference of money in ancient writings shows the antiquity of its use.

In the Hindu period both gold and silver served the purpose of medium of exchange. The coinage of silver however began earlier than that of gold because the former, as the historians tell us, was more valuable than the latter during that time. There were other kinds of money in circulation. Of these copper and shells played an important part in much as they were used in making small payment. The coinage was not the sole prerogative of the sovereign in those days and private persons were often found to undertake the coinage of money. The Mansfield commission which was the first to deliberate upon the problems of India recommended that currency should consist of gold, silver and paper

Gold and silver coins were in concurrent circulation.

and that gold coins of 15, 10 and 5 rupees should be issued. The Government, however, did not give effect to these recommendations.

Several experiments in the Mahomedan period.

The Mahomedan period is remarkable for several important experiments and innovations in the currency system. The first experiment dated as early as 1233 A.D. when Sultan Altamash introduced silver tankas. This tanka underwent certain changes during the Panthan and the Magul rule. Mahamed Tughlak acted upon the silver tanka by reducing it to the position of a debased coin but this attempt did not prove a success. Next came Sher Shah who abolished all coins of lower denomination and substituted 'tanka' by 'rupya'. Our modern rupee is said to have discended from rupya the silver coin introduced by Sher Shah. In the subsequent period Akbar the Great tried his best to reform the then currency system by introducing one uniform standard but his efforts were not crowned with success. However, it can not be denied that he improved system of currency to some extent. Attempts were made during this period for prohibiting private coinage, but although private coinge was checked the independent chiefs and princes enjoyed the privilege of coining money according to their sweet will and pleasure with the result that there were as many as 994 kinds of gold and silver coins in circulation when the East India Company came for the first time to rule over India.

Absence of one uniform standard of value.

During the earlier period of the Company's rule the different provinces of India had different standards of value. In Bengal and some other provinces the silver standard prevailed while Madras was fortunate enough to maintain the gold standard with gold currency. These different standards of value gave rise to serious inconveniences, and the necessity of one uniform standard was keenly felt by the East India Company. The

East India Company could not achieve their end at once but they had to proceed gradually. The first step that was taken by the Company in pursuance of their object was to introduce in Madras the silver rupee as a suitable substitute for the Gold Pagoda. The next step was taken in 1835 when a monometallic silver currency was introduced for the whole of India. The Silver rupee that was made the standard coin in 1835 weighed 180 grains and contained 165 grains of silver. In order to facilitate the acceptance of silver coin of unlimited legal tender the Company demonetised gold or in other words enacted that gold coins would not be recognised as legal tender of payment; but inspite of this enactment regarding the demonetisation of gold the Government authorised the coinage of gold mahar by the Act of 1835 and advised the officers by the proclamation of 1841 to accept the gold mahars at the ratio 1 : 15. This proclamation remained in force till 1852 when on account of the fall in the value of gold occasioned by the excessive supply of gold from Australia the Government had to withdraw the above proclamation. This was done during the administration of Lord Dalhousie and thenceforward the treasury refused to accept gold mahars in payment of what was due to the Government from the people. Thus gold mahars completely ceased to be legal tender of payment.

Silver mono-metallism introduced in 1835.

In 1864 a proposal was made to make the severeigns and the half-sovereigns legal tender at rates 1 : 10 and 1 : 5 respectively; but the Secretary of State rejected the proposal on the ground that circumstances of the time did not favour the adoption of gold-currency system in India; but the Secretary of State was pleased to give effect to another proposal which spoke of exchanging the currency notes either for silver rupees or for Sovereigns.

Adoption of gold standard was not favoured.

We have already seen that in 1835 a mono-

Characteristic of silver monometallism.

metallic silver currency was introduced in India. Under this system the silver coin was a standard coin in as much as its face value represented its bullion value. Again, mints were open to the free coinage of silver; people could approach the mint with silver bullion in hand and get it converted into coins at the mint. The value of silver rupee was therefore dependent upon the demand and supply of the metal.

The depreciation of the value of silver and the fall in Indian Exchange.

This system of currency continued without interruption till 1873 when a change came upon the demand and supply of silver. The supply of silver increased very much on account of the discovery of new silver mines. The inevitable consequence of this increased supply was a fall in the value of silver with reference to gold. Again, this fall in the value of silver was accentuated by the demonetisation of silver by civilized countries like Germany, Sweden, Norway and Denmark. At the critical moment the United States of America decided to repeal the Sherman Act under which the Government was required to purchase 54 million ounces of silver for annual coinage. For these reasons the rate of Exchange began to take a downward course and in 1892 the value of rupee was 1s. 3d. as against 2s which represented its value in 1871. Such a constant fluctuation in the rate of exchange had its worst effect on the trade and industry and the Government of India was faced with a great difficulty in connection with the framing of budget and payment of Home charges. The Government of India suggested in 1878 the introduction of gold standard but this suggestion was not approved of by the British Government. The Government of India was in a very precarious position on account of the disorganisation of its finance caused by the ever-fluctuating character of Indian Exchange. A committee known as the Herschell Committee

was therefore appointed so that it might make recommendation concerning the reform that should be introduced in the currency system of India. Before studying the recommendations of the commission it will be worthwhile to summarize the evils that followed from the falling exchange.

The Herschell Committee was appointed.

Sc. 2. The disadvantages of falling Exchange.

The disadvantages of falling exchange summarized.

(1) The Government of India suffered a great loss in connection with the payment of Home charges. It had to pay a huge amount of sterling as Home charges; but every fall in the value of rupee made its obligation more burdensome because such a fall had the effect of increasing the number of rupees that would be required in purchasing the fixed amount of sterling which could liquidate the Home charges.

(2) The Budget of the Government became a gambling transaction in as much as the Government could not, on account of the fluctuating character of Indian exchange determine definitely the amount of rupees that would be required for discharging its foreign obligation. The Government therefore, was not in a position to adjust its income to the expenditure.

(3) As the amount of Home charges increased in term of rupees of Government had to impose additional taxation upon the people.

(4) The importers were affected by the falling exchange because every fall in the exchange meant an increase in the number of rupees that would be required for paying the price of imported commodities. Thus the import trade of the country was discouraged to a very great extent.

(5) The falling exchange reduced the supply of foreign capital. This was due to the fact that

Importation of foreign capital was hampered.

the falling exchange consumed a large part of the profits that could be derived from investment of foreign capital. The foreigners invested capital with a view to derive a higher rate of interest or profit from such investment, but on account of the falling exchange the huge profits derived in terms of rupees could fetch only few sovereigns.

(6) The Europeans who had been serving under the Government of India and who received their salary in term of rupees felt keenly the effect of falling exchange whenever they had to make remittances for the maintenance of their dependents there or for any other purposes

(7) The borrowing power of the Government of India was curtailed to a very great extent as the falling exchange reduced the demand for Government securities in foreign countries.

Various schemes were suggested.

All the above disadvantages were keenly appreciated by the Government of India. Various schemes were suggested which were supposed to improve the system of currency. The scheme for introducing gold standard with gold currency was rejected in as much it would require the conversion of existing rupees into gold and silver could be sold at a very low price during that time. Another scheme was for the introduction of bimetallic system of currency but this scheme could be successful only if other nations agreed to adopt it. Bimetallic system of currency could not be adopted with success by a single country because of the operation of Gresham's law. This scheme, therefore was rejected. The Government of India then suggested a third remedy which consisted in closing the mint to the free coinage of silver. A committee known as the Herschell Committee was appointed in 1892 and the scheme was referred to it for con-

sideration. The Herschell Committee after due consideration of the scheme made the following recommendations :—

(1) The mints should be closed to the free coinage of silver, that is to say, private persons would not get silver coins in exchange for silver bullion, but the Government should have the power of issuing rupees if the circumstances of the time required coinage of rupees.

Recommendation of Herschell Committee summarized.

(2) That the Government Treasuries should be authorised to accept gold sovereigns at the ratio 1 : 15 in payment of revenue to the Government.

(3) That the gold coins and bullion should be received at the mint at the rate of 1s. 4d. to the rupee.

The Act of 1893.

The first recommendation of the committee was given effect to by the Government by passing the Act of 1893. The act was followed by three notifications. The first notification provided for giving rupees in exchange for gold coin and bullion presented at the mint at the rate of 16d. to the rupee. The second notification authorised the treasuries to receive sovereigns and half-sovereigns at that rate and the third notification directed the currency offices to issue notes in exchange for gold coin or bullion at that rate.

The scheme of closing the mint and the quantity theory of money.

The scheme was based on the Quantity Theory of money. The exchange value of the rupee was then taking a down-ward course and the exchange value could not be raised unless the supply of rupees was restricted. The closure of the mint was, therefore, the best remedy because it took away the privilege of private persons to increase the supply of rupees by converting the bullion in their possession into coins.

The immediate effect of such closure.

The closure of the mint, however, was not followed by a rapid rise in the exchange value of rupee, on the other hand there was a more rapid fall in Indian Exchange. This decline in the value of silver rupees was mainly due to withdrawal of currency from private hoards and the repeal to Sherman Act. In 1889 the fall in exchange was represented by 13·6*d*. The ultimate effect of the closure of the mint was a steady rise in Indian Exchange and in 1898 the exchange value of the rupee became 15·9*d*. The Government managed to raise the exchange rate to this level by artificially contracting the currency at a time when the trade was very brisk. During this period of transition there was a great controversy in India regarding the best system of currency that India should adopt. This led to the appointment of another committee known as "Fowler Committee". The committee was asked to make recommendation as to the best form of currency policy that India should adopt with success.

The ultimate effect.

Sc. 3. The effect of the closure of the mint.

The Government came to exercise supreme control.

We have seen above that the Government closed the mint to the free coinage of rupees in accordance with the recommendation submitted by the Herschell Committee. The exchange value of the silver rupee came to have little or no reference to the value of silver contained therein. The face value of the rupee became higher than the bullion-value because of the restriction placed on the coinage of rupee. The Government came to have a supreme control over currency affairs and the Government could not adjust the supply of currency to meet the increased demand. Again although the Government authorised the mints as well as the treasuries to accept gold at the rate 1*s*. 4*d*. gold had not been made legal tender thereby.

The silver rupee which was reduced to the position of a token coin continued as legal tender to an unlimited extent.

Sc. 4. The objects of the Act of 1893 and the notifications.

The prime object was to raise the rate of exchange.

(1) The prime object of the Act of 1893 which closed the mint to the free coinage of silver was to restrict the coinage of rupees and thereby to raise the exchange rate. The Government was very much in favour of a rise in the exchange rate because that would reduce its sterling obligation. The prevailing rate at that time was about 1*s*. 2*d*. and the Government intended to raise it to 1*s*. 4*d*. This end of the Government could not be realised except by shutting the doors of the mint against private persons demanding rupees in exchange for silver bullion.

(2) The next important object was to check the supply of silver. As free coinage was abolished the importation of silver for the purpose of coinage would be discouraged in future.

(3) That the rise in exchange rate which would be effected by the closure of the mint would go to encourage the importation of foreign capital in India to the improvement of Indian industries.

(4) That the Government would require smaller amount of rupees for discharging its obligation in connection with the payment of Home charges. Such an economy in the expenses of the Government would ulttmately lead to a reduction of taxation.

(5) The two notifications by which mints and the treasuries were authorised to accept gold coins or bullion at the rate of 1*s*. 4*d*. to the rupee would familiarise the people of India with the use of gold coins and thereby facilitate the in-

troduction of gold standard and gold currency in India.

Sc. 4. The objections against the closure of the Mint.

The closure of the mint to the free coinage of silver was vehemently criticised by the Indian public. We shall now discuss the main grounds on which the criticisms were based.

How it affected the poor

(1) The poor persons were prejudicially affected by the Act of 1893. In India they generally invest their savings in silver ornaments and these ornaments are sold when they are urgently in need of money. Before the closure of the mint they could approach the mint with these ornaments and get them converted into rupees; but the withdrawal of this privilege forced them to sell these ornaments at a price which could fetch smaller amount of rupees.

The difficulty of the Bombay millowners.

(2) The Bombay mill-owners had to suffer the consequence of the Act to a great extent. They had commercial dealings with China and other silver using countries and were paid in term of silver bullion. The silver bullion so obtained could not be converted into coins because of the closure of the mints. They had no other alternative but to sell the silver bullion at the market price which was lower than the mint price of silver.

The agriculturists were injured.

(3) The agriculturists also were hard hit by such an Act in as much as the rise in the exchange value of the rupee which was effected by the artificial contraction of currency in circulation had the effect of lowering the price of agricultural products. On the other hand they were given no concession in respect of the payment of their rupee-debts.

(4) The closure of the mint, it was argued,

would interfere with the progress of industries by lowering the price of the products.

(5) The face value of the rupee would be higher than the bullion-value and the huge profit that would accrue from the coinage of rupees would tempt others to counterfeit coins.

(6) The closure of the mint was not at all necessary to remove the difficulties which the Government was faced with during the time of falling exchange. The Government suffered a great loss in connection with the payment of sterling obligation and the best remedy would have been to reduce the amount of Home-charges.

(7) The closure of the mint would make the currency system less automatic and thus create a stringency in the money market to the detriment of trade and industry.

Sc. 5. The Fowler Committee and the Gold Exchange Standard.

The Act of 1893 which closed the mint to the free coinage of the silver failed to raise the exchange rate immediately; its ultimate effect, however, was a rise in exchange. Proposals were made during this time for the introduction of gold standard in India. The Secretary of State had to appoint a committee known as Fowler Committee to consider these proposals and to make necessary recommendations. To this committee were forwarded several schemes; one such scheme came from Mr. Probyn.

Issue of gold notes redeemable in terms of gold.

(1) *Probyn's scheme*:—The scheme had for its object the convertibility of silver rupees and silver-rupee-notes into gold but this could not be possible unless there was sufficient gold fund with the Government. It was, therefore, suggested that gold notes of the amount of Rs. 10000

each should be issued against gold presented to the Government by the people and these notes should be convertible into gold or rupees at the option of the holders. In this way a gold reserve would be established which would ultimately ensure the convertibility of rupees and rupee notes into gold. It should be noted in this connection that the scheme suggested, in essence, the introduction of gold bullion standard. It did not recommend the introduction of gold currency in India because it was thought that Indians would hoard gold if such system was ever introduced.

The Fowler Committee to which this scheme was referred rejected it on two grounds—First the danger of hoarding which was apprehended and which stood against the introduction of gold currency did not appear to the committee to be very great; secondly it was not proper that India's internal currency should consist of token silver coins and rupee notes for all time to come.

It suggested method of an international payment.

(2) *Lindsay's scheme* - This scheme suggested the convertibiliy of rupees into sterling at a certain fixed rate when payment was to be made in foreign countries where rupees would not be accepted. This sterling should be supplied by the Government by selling sterling drafts which should be redeemed into sterling by the Secretary of State. It also provided for the sale of rupee-drafts at a fixed rate in London. This scheme could not be successful unless there were sufficient funds—a sterling fund in London and a rupee fund in India—which would enable the Government to redeem both sterling drafts and the rupee drafts without difficulty. The scheme, therefore, recommended the constitution of a fund by a loan of £10 millions. The intenal currency should, as the scheme suggested, consist of rupee and rupee-notes and they would remain ultimited legal tender.

The Fowler Committee rejected the above scheme on the following grounds—

(1) The permanent adoption of such a peculiar form of currency system was not desirable. Again, the Indian opinion which demanded the introduction of gold standard and gold currency would not look upon the suggested scheme with favour.

(2) The issue of sterling drafts to an unlimited extent would increase the liability of the Secretary of State and the fund contributed by loan might not be sufficient for the redemption of those drafts.

This scheme is important in as much as the Government in its attempt to give effect to the recommendations of the Fowler Committee for an effective gold standard drifted towards a system which was based upon this scheme. The Government did not introduce gold standard and gold currency in India, on the other hand it adopted a system which was similar to that suggested by Mr. Lindsay and this system was technically known as Gold Exchange Standard.

The Indian Currency system has been finally based upon Lindsay's scheme.

Sc. 6. The recommendations of the Fowler Committee.

(1) The exchange-rate was at that time 1*s*. 4*d*. and the committee was convinced that it would remain so in future and that the adoption of that rate would not prejudicially affect the trade and industry. The committee, therefore, recommended that the exchange-rate should be stabilised at that rate (1*s*. 4*d*.)

The ratio to be fixed at 1s. 4d.

(2) That the Government should be ready to exchange rupees for gold presented by the public and in this way gold would accumulate. No fresh coinage of rupees should be made unless and until the gold fund so accumulated is more than sufficient to meet the demands for gold.

(3) That the mints should be thrown open to the free coinage of gold and in this way India would have the system of gold standard and gold currency.

(4) That the British sovereigns should be made unlimited legal tender at the rate 1 : 15. This would have the effect of familiarising the people of India with the use of gold and would lead to circulation of British sovereigns in India.

(5) That the profits derived from the coinage of rupees should go to constitute a fund and this fund would help the Government in converting rupees into sovereigns ; but at the same time the committee recommended that no obligation should be thrown upon the Government to convert rupees into gold.

(6) That the rupee should continue to be unlimited legal tender.

The above recommendations were accepted almost entirely by the Government of India and the Act of 1899 was passed which made sovereigns and half sovereigns legal tender at the ratio recommended by the committee.

Attempt was made to establish a branch of the Royal Mint for coinage of gold but the scheme was ultimately abandoned on account of the opposition of the British Treasury. A gold standard Reserve Fund was constituted in 1900 out of the profits of rupee coinage.

The Gold-Exchange standard which was thus introduced, had the following characteristics.

(1) The local currency consisted of silver rupees and rupee-notes.

(2) The rupees were not necessarily redeemable in gold. The Government might redeem them in gold if it had enough gold funds with it.

(3) The Government took upon itself the responsibility of providing the people with sterling at a certain maximum rate when people required the same for making foreign payments. This is the reason why the system is termed as gold-exchange standard.

(4) The reserves created out of the profits of rupee coinage were kept both in London and in India in order that the sterling drafts and council bills with which payment between England and India would be made might be redeemed into sterling and rupees respectively.

(5) The silver rupees though they were token coins were legal tender to an unlimited extent.

Sc. 7. How the Gold-Exchange standard was maintained.

The Government sold reverse councils to check the fall in exchange

The Gold Exchange standard system could continue so long as the rate of exchange could be maintained. The Government succeeded in maintaining the exchange rate by checking the fall in Indian exchange by selling reverse councils or sterling drafts at 1s. $3\frac{29}{32}d.$. When the exchange fell to this point the Government began to sell sterling drafts and thereby provided the people with gold or sterling that might be required for making foreign payments. These sterling bills were drawn upon the Secretary of State who was to redeem them into sterling. Hence there was the necessity of a sterling fund to be located in London which would enable the Secretary of State to convert bills into sterling. This fund, as we all know, was created out of the profits of rupee coinage in accordance with the recommendation of the Fowler Committee. We should care to note in this connection that the sterling drafts, or Reverse councils were sold at the rate 1s. $3\frac{29}{32}d.$;

because it is then that there would be a necessity for exportation of specie out of India and we know Government of India took upon itself the responsibility of providing the people with sterling when they would require the same for making foreign payments. In this way the exchange rate was not allowed to fall below the rate 1s. $3\frac{29}{32}d$.

The Government sold council bills at 1s. $4\frac{1}{8}$d.

On the other hand the rate of exchange could not rise above 1s. $4\frac{1}{8}d$. because in that case foreigners would think it profitable to export gold to India in making payments to India and this gold would be presented to the Government of India and rupees would be exchanged for gold. Thus the supply of these rupees which were so long locked up in treasury would go to reduce the exchange value of the rupee. The same result would follow if instead of sending gold coins directly the foreigners purchased Council bills from the Secretary of State and made payment therewith. In this way a rise in the exchange rate was checked.

The crisis of 1907-8 and its effect upon the rate of exchange.

The currency system went on smoothly till 1907 when on account of a serious famine in Northern India, India had an unfavourable balance of trade. As a result of this unfavourable balance Indian exchange began to fall and in 1908 it fell below the specie point. The exchange value of the rupee then stood at 1s. 3 [illegible]/32 d. This heavy fall was partly due to the American monetary crisis. To check the fall in exchange the Government sold Reverse councils in sufficient quantities with the result that the gold fund in London was almost exhausted. The Secretary of State had to release gold from the Paper Currency Reserve in London against a transfer of rupees to the same reserve in India. The demand for the encashment of Reverse Councils increased so much that the Secretary of State had to sell the sterling securities in the

gold standard Reserve at a depreciated price. This was the first time when the Government experienced the difficulty of maintaining the exchange rate during the time of crisis. However the exchange rate was again restored to 1s. 4d. because of the contraction of currency that was brought about by the sale of Reverse Councils and the fall in prices leading to an increase in India's export in later years. The Gold-exchange standard system then continued smoothly till 1916 when it had to give way on account of the abnormal rise in the value of silver.

Sc. 7(a). The Chamberlain Commission and its recommendations.

The Currency system of India became the subject of severe criticism and the Indian public persistently demanded the introduction of gold standard and gold currency in India. In 1911 resolution was moved in the Imperial Legislature by Sir Damodar Vithaldas Thakersay for the adoption of gold currency. The question was referred to the Chamberlain Commission which began its enquiry in 1914. This currency commission opened that gold currency was not an essential condition of the gold standard and that India should not encourage the introduction of gold coins in circulation. The commission laid stress upon the maintenance of the exchange rate and recommended that sufficient reserve in gold and sterling should be accumalated for that purpose. Others recommendations which the above commission made were the abolition of the Indian Branch of the Gold Standard Reserve and the location of the entire reserve in London.

The Government maintain exchange during the war time.

Sc. 8. The war and the breakdown of the Gold-Exchange standard.

The Gold-exchange standard went on

smoothly for a long period of time but the Great war shook the system to its very foundation and ultimately caused its breakdown. The Government of India succeeded in maintaining the exchange rate till 1916 but later on it had to leave the rate of exchange to its own fate. There was a heavy rise in Indian exchange and it became impossible for the Government to maintain the exchange rate without incurring loss. It is interesting to study the causes that were responsible for the rise in Indian Exchange during the war time. First, there was the favourable balance of trade for India which meant that the export was greater than the import. This was occasioned by the excessive demand for Indian articles in belligerent countries. India had to provide the allied powers with articles that were necessary for the purposes of consumption and war. Again, the export trade of India was augmented during this time by the exportation of capital from India to finance the war and by the invisible exports of war services. The people of India actually fought for their sovereign and the service so rendered might be described as an invisible export to be entered into the credit side of India. All these factors combined accounted for the abnormal increase of India's export during the war period; but the import trade of India did not increase but it declined greatly because the belligerent countries could not produce regularly the articles that they usually produced for other countries. Another cause of the decline in the import trade was the restriction imposed by the belligerent countries on the ~~importation~~ of precious metals from their countries. This decline in Indian imports made the balance in favour of India very large. India therefore became a creditor country to the extent of the excess of her exports over imports. The demand for Indian bills increased in foreign countries and in conse-

The causes of rise in exchange.

The export increased and the import decreased.

quence the exchange value of rupee rose very high. The demand for silver rupee was very intense but the supply of that metal diminished greatly due to several causes. The cost of production of the metal increased and the internal disturbances in Mexico led to a great shortage in the supply of silver. The value of silver, therefore, began to rise and it rose so much that it became impossible for the Government of India to maintain the exchange rate at 1s. 4d. Another important factor which influenced the rise in Indian Exchange was the character of dollar-sterling exchange during the war time. English sterling was depreciated in terms of gold dollar because Great Britain had to adopt an inflationary policy to meet her military expenditure. The rate of exchange between gold dollar and English sterling was pegged at \$4·76 : £1. for facilitating trade between these two countries, but in March 1919 the dollar-sterling exchange was left to its own fate and the result was that it fluctuated and reached as low a level as \$3·40 : £1 sterling. This depreciation of sterling led to a rise in the sterling price of silver because the Secretary of State had to pay the price of silver purchased from America in terms of dollar. The silver contained in one rupee became more valuable than 1s. 4d. and therefore its exchange value began to vary gradually till at last it reached the maximum point of 2s. 4d. in 1919. The Gold Exchange standard which was introduced by the Act of 1899 and which could continue only so long as the rate of exchange could be maintained by the Government thus broke down on account of the failure of the Government to maintain the exchange rate at 1s. 4d.

The supply of silver failed to respond to the increased demand.

Sc. 9. War and the increased demand for silver coin.

During the war time India had a large

balance of trade in her favour. This increased the demand for council bills and the council bills could be redeemed in silver rupees or silver rupee notes. The increased sale of council bills reduced the Paper Currency Reserve to a great extent and endangered the convertibility of notes issued against such reserve. Secondly, the war caused uneasiness among the people and they were very anxious to convert their notes into silver rupees. This apprehension on the part of the people of India was responsible for the rapid absorption of rupees during the war period. Thirdly, the circulation of currency became less rapid and whatever money was issued by the Government remained in private hoards because they curtailed their expenditure on account of the rise in prices. Fourthly, the provision of banking facilities was too inadequate for this vast country and in consequence, a large quantity of metallic money was ordinarily necessary for exchange purposes. Fifthly, the demand for silver coin increased because the intrinsic value of silver contained in the rupee was higher than its face value and people were tempted to melt it in order to earn some profit. Lastly the Government of India undertook the responsibility of incurring certain expenses on behalf of the British war office and it needed a large stock of rupees to discharge its responsibility.

Favourable balance of trade.

Increases in the encashment of notes.

Slow circulation

Sc. 10. The measures taken by the Government.

The demand for Indian currency increased very much on account of India's heavy favourable balance of trade. The Government could meet this increased demand for currency, in four ways - (1) The Secretary of State might sell council bills in response to trade demands but in that case the obligation would be thrown upon the Government of India to redeem them into Indian currency. At first council bills were sold

The sale of council bills was reduced.

in enormous quantities but it was found that such sale taxed very much the capacity of the Government to redeem them and endangered the convertibility of notes by reducing the Paper Currency Reserve. The Secretary of State had therefore to reduce the sale of council bills by restricting such sale to approved banks that were engaged in financing the articles required for military purposes merely. Hence these approved banks ceased to give any opportunity to the exporters of other commodities for discounting their bills of exchange.

(2) The next method which the Government might possibly adopt in meeting the increased demand for Indian currency consisted in increasing the issue of notes against deposits of gold in the London portion of the Paper Currency Reserve; but there was a limit to such issue of notes. The coinage of silver would be necessary to increase the silver reserve and otherwise the convertibility of notes would be at stake. The Government of India increased the issue of notes so much that it had to suspend the extra-legal facilities for conversion and to restrict the daily issue of rupees to a single tenderer of notes. (3) The third method by which the excessive demand for currency could be met was the purchase of silver for coinage in India but the supply of silver fell very much during that time leading to a rise in the value of that white metal; again, the demand for silver increased very much because not only India but also other countries required a large quantity of silver for the purpose of coinage. (4) The last alternative that was left open to the Government of India to meet the excessive trade-demands for currency was to borrow money from the public and to use that money in redeeming the council bills drawn by the Secretary of State; but this method could not be very much effective when the demand for Indian currency was very great.

Paper currency was issued in large quantity.

The purchase of silver

Borrowing of money.

Se. 11. The War and the Paper Currency Reserve.

Causes of the reduction of the Paper Currency Reserve.

During the war time there was an increased demand for council bills on account of India's favourable balance of trade. The sale of such bills led to the withdrawal of large sum of rupees from the Indian portion of the Paper Currency Reserve. This reserve could be augmented only by extra coinage of rupees but the Secretary of State failed to purchase silver in adequate quantity partly on account of the diminution in the output of silver and partly on account of the restriction imposed by other countries on the exportation of precious metal. Again the Paper Currency Reserve was reduced during that time for another important reason. The people of India doubted the stability of the Government and in consequence there was rush for the encashment of paper-notes. In 1917 and 1918 India's absorption of rupees was so great that the reserve fell to 11 crores of rupees. The runs on Paper Currency Reserve continued unabated with the result that the reserve was at one time reduced to 4 crores against 90 crores of rupee-notes. The convertibility of notes was then in danger. The Government tried its utmost to increase the supply of silver for coinage by restricting the importation of silver on private account and by prohibiting the exportation of silver coin and bullion from India. Again, arrangement was made at that time with the Government of the United States of America and as a result of that agreement the Pitman Act was passed in 1918. This act provided for the sale of 350 millon dollars at a fixed price to the Secretary of State for India. The supply of silver was thus increased aud the Government by extra coinage of rupees managed somehow or other to meet the increased demand for

How the Government attempted to increase the reserve.

currency within the country. The Government of India had for a temporary period of time taken recourse to another important measure. This was the opening of a branch of the Royal mint in Bombay so that the stock of gold in India could be coined into gold mahars. This was done with a view to meet the exraordinary demand for Indian Currency. Another step that the Government had taken to reduce the demand for silver was the introduction of nickel coins of smaller denominations.

Sc. 12. The rise in Indian Exchange; its effects.

The break-down of the Gold Exchange Standard.

We have seen in the preceding sections that during the war time the Indian Exchange began to rise due to two-fold causes viz.:—(1) The rise in the value of silver and (2) an increase in the demand for silver occasioned by the large balance of trade in India's favour. The Government of India failed to maintain the exchange rate at the pre-war level and the exchange rate went on rising till at last it reached the maximum point in 1919. The rising exchange had its effect upon the export and import trade of the country. The export trade of India was discouraged because every rise in the exchange value of the rupee reduced the value of the exported commodities in terms of rupees. The exporters had to draw their bills of exchange in terms of £ s d. and the rise in Indian exchange meant that their bills of exchange would fetch less number of rupees; but the export trade of India did not decrease so long as the demand for Indian commodities in Europe was very intense and the price for Indian commodities was higher in terms of £. s. d. When the demand for Indian commodities from European markets fell the export trade began to take a downward course. The import trade of India would be encouraged by the rise in exchange in

The export trade was discouraged.

as much as importers would have to part with smaller amount of rupees in paying the price of the imported commodities in terms of £. *s*. *d*. but the import-trade would not increase at once because the importers would postpone their purchase with a view to derive higher profits. Stimulus to the import trade and discouragement to the export trade would ultimately lead to an equilibrium between export and import trade.

The importation of foreign capital was hampered.

The importation of the foreign capital into India would be hampered because more sovereign would be required to make a fixed amount of investment in terms of rupees and every rise in the value of English sovereign which might possibly happen in future would reduce the investment when the date of repayment would come, on the other hand the rise in Indian Exchange could stimulate the exportation of capital from India because smaller number of rupees would be necessary to make investment in terms of sovereigns and when the exchange value of sovereign would rise in future the investment would fetch larger amount of rupees.

Advantages in remittances abroad.

The consumers would not derive much benefit from the consumption of imported commodities because the fall in English exchange would lead to a rise in prices in £ *s*. *d*. Again the Indian exporters would raise the price of the exported commodities in £ *s*. *d*. and this would influence the internal prices of commodities. The Europeans in India having their income in rupees would gain much when remitting a part of their income to their native countries for the maintenance of their dependents there because they would have to part with smaller number of rupees in making the required amount of remittance.

The Government of India would gain much in the matter of payment of Home charges be-

cause such obligation could be discharged during rising exchange with smaller amount of rupees.

Sc. 13. The Gold Standard Reserve.

The Fowler Committee recommended that the profits derived from the coinage of rupees should not be used for augmenting the revenue of the Government but should be kept in a separate reserve. In accordance with this recommendation a reserve technically known as the Gold Standard Reserve was constituted in 1900. Such a reserve was necessitated by the peculiar system of currency which was introduced in India. The Gold Exchange standard system could not continue unless the Government could supply the people with gold at a certain maximum rate whenever it would be required for making foreign payment. This obligation on the part of the Government could not be discharged unless there was sufficient fund with the Secretary of State. The question of making foreign payment arose specially during the unfavourable balance of trade when the rate of exchange reached the specie-export point 1s. 3[illegible]d. It was during this time that the Government of India used to supply people with gold or sterling by selling what was known as sterling drafts. These sterling drafts were drafts issued upon the Secretary of State for India and in consequence threw upon him an obligation to redeem them in terms of sterling; but the Secretary of State could not discharge his responsibility in this connection unless he was provided with sufficient amount of Sterling Funds in London. The location of Gold Standard Reserve Fund in London helped the Secretary of State in redeeming the sterling drafts into sterling.

The Reserve was necessary because the exchange rate could not be maintained otherwise.

The whole fund was kept in London and some portion of it was invested in British

How the reserve was kept.

securities till the year 1906 when the Government of India decided to keep a portion of the reserve in India in terms of silver. Again in the year 1907 it was decided that half of the profit from coinage of rupees should be used for capital expenditure of Railways and in pursuance of this decision near-about £1 million was spent out of the profits from coinage for Railway purposes; but on account of the diminution of the reserve the decision was soon reversed. The Indian portion of the Reserve continued to exist till 1914 when in accordance with the recommendation of the Chamberlain Commission it was abolished and the whole reserve was transferred to London. The Currency Commission that was appointed in 1919 recommended that a portion of the gold held in Gold Standard Reserve should be kept in India. Since 1921-22 the total Reserve has been kept at £40 millions and the excess over £40 millions was spent in 1921-22 in cancelling the created securities and since 1922-23 has been transferred to the general revenue of the Government.

Sc. 14. The Criticism of the location.

The Indian opinion vehemently criticizes the location of the entire fund (Gold Standard Reserve) and the investment of it at a nominal rate of interest in London. The fund belongs to India but it has been used and is still being used for removing stringency of the money market of London while the Indian trade and industries are suffering greatly for want of capital. It is just and proper that the Reserve or at least a part of it should be kept in India and lent to the Indian banks so that the present stringency of the money market may be removed.

Again, the management of the Reserve has not been quite satisfactory. We have seen how some portion of the Reserve was applied

to capital expenditure on Railways in 1907-09. Again, the Reserve is intended to be kept in gold but we find that large portion of it has been invested in securities and some portion of it has been lent even to private borrowers. The Gold Standard Reserve has been reduced greatly on account of the depreciation of these securities. Another defect lies in the whimsical mixing up of the reserve with the Treasury balances. It is desirable that Gold Standard Reserve should be kept separate from the other balances of the Government.

The fund has been invested in British securities at a low rate of interest.

The management of the reserve has not been satisfactory.

The reply given by the Government.

In answer to the above criticisms the Government says that India has nothing to do with gold and gold has been kept where it is wanted. The main object of the Gold Standard Reserve is to provide the Secretary of State with fund in connection with the maintenance of Indian Exchange. When during the unfavourable balance of trade for India the Government of India would sell Reverse councils in order to maintain the Exchange rate the Secretary would have to redeem them into sterling and this could not be possible for the Secretary of State unless he had sufficient funds with him. Hence it was argued that the Gold Standard Reserve should be kept in London in its entirety. As against the criticism that has been advanced against the investment of the Reserve in securities the Government of India has said that this investment has been made because the gold fund has increased considerably and that it is useless to keep such a large amount of fund idle; again, the profit derived from such securities has been added to the Reserve.

The investment has augmented the reserve.

The composition of the Gold Standard Reserve in 1926.

British Treasury bills	£3,146,812

Other British and Dominion Government Securities	...	£36,849,248
Cash at short notice	...	£3940
		£40,000,000

Sc. 15. The various recommendations on the Gold Standard Reserve.

The various currency commissions that have been appointed in India to make recommendation on the currency system have not failed to make certain suggestion as to the constitution of the Gold Standard Reserve. We shall have a brief summary of such suggestions.

The recommendation of the Chamberlain Commission.

The Chamberlain Commission of 1913-14 recommended that gold portion of the Reserve should be raised to £10 million by transfer of gold from the Paper Currency Reserve and that the Government should miss no opportunity to raise the Reserve (in gold) to £15 millions and after that one-half of the total reserve in actual gold would be sufficient. It was further recommended that the entire reserve should be kept in gold and the profit of the rupee coinage should be credited to the reserve in its intirety.

The recommendation of the Babington Smith Committee.

The Babington Smith Committee (1919-20) did not define the limit to which the Gold Standard Reserve should be raised but recommended that the fund should not be invested in long-term securities and that the investment shoud be made only in securities issued by the Government within the British Empire other than the Government of India and having a fixed date of maturity not exceeding 12 months. This committee also recommended that a portion of the Reserve should be kept in India.

Hilton-Young Commission's suggestion.

The Hilton Young Commission of 1926 recommended that the Paper Currency and Gold Standard Reserves should be amalgamated

and the proportions and composition should be fixed by statute.

Sc. 16. The rise in Exchange and the Babington Smith Committe.

The object of such appointment.

In the preceding section we have seen how the abnormal rise in the rate of exchange led to the break-down of the Gold Exchange Standard. Thus when the war was over we found the Indian Exchange in a fluctuating condition. Such an uncertainty in India's Currency system was prejudicial to the interest of trade and industry and in consequence, the Secretary of State appointed a committee known as the Babington Smith Committee to devise means for restoring stability to the rupee and for re-establishing automatic working of the Gold Exchange Standard system. The Committee rejected the proposals for reducing the fineness or weight of the silver rupee and similar other proposals and finally decided to fix the exchange value of the rupee at 2s. gold. The stabilisation of the exchange rate at such a high level was based on the prevailing value of silver during that time. The Committee also suggested the means that should be taken by the Government if the value of silver rises above the parity of 2s. gold. Such a stabilisation of the exchange rate would materially help the Government in meeting its Home charges and would not, as the Committee held, prejudicially affect the trade and industries of the country. The export trade would not, according to the opinion of the majority of the members, suffer much because there is a keen demand for Indian raw materials in foreign countries. No doubt the import trade would be stimulated but the majority of the members opined that this stimulus would be transitory in character and would not seriously hamper the progress of Indian industries. The prices of the imported stores and machineries

It recommended the 2s. gold rate and the reasons for such recommendation.

would fall in terms of rupees and this would go a great way in lowering the cost of production. The Government therefore should try its utmost to maintain the rate of exchange at 2s. (gold) by selling Reverse councils during the time when the Indian Exchange would show a sign of weakness. This 2s. (gold) ratio was recommended by the majority of the members of the commission but a Note of Dissent was written by Sir Dadiba Dalal. In this note Sir Dadiba Dalal stated in clear terms the serious consequences that would follow from the stabilisation of 2s. gold rate and recommended the restoration of the exchange rate to pre-war level i. e. 1s. 4d. The 2s. (gold) rate would bring about dislocation of trade and industry and turn the balance of trade against India by discouraging her exports. The Reserves of the Government now kept in gold and sterling would depreciate in term of rupee. He was against the sale of council bills in response to demand of trade and suggested that sterling drafts should be sold by the Government of India at the pre-war rate i. e. 1s. $3\frac{29}{32}d$. He appreciated the defects inherent in the Gold Exchange Standard and recommended the introduction of a Gold Standard with gold currency. All these recommendations were ignored and the Government accepted the 2s. gold rate as recommended by the majority. The sovereign was made legal tender at Rs. 10 by the Coinage Amendment Act of 1920. The Treasuries and Currency offices were authorised to accept sovereigns and half-sovereigns at the rate of Rs. 10 and Rs. 5 respectively but as the market price of sovereign was higher than the above rate the sovereigns were never available in currency at the new rate. The sale of council bills and reverse councils was authorised at the new rate. The Government by means of notifications withdrew the ban on the melting of silver and gold coins and at the same time

The Govt. accepted the above recommendation.

allowed the importation of silver into the country. The Gold Exchange Standard system was thus again re-established ; but the rate of exchange was this time fixed at a higher level because of the recommendations made by the commission in this respect.

Sc. 17. Why the exchange could not be maintained at 2s. gold ?

The reasons why the Govt. failed to maintain the exchange rate at 2s. gold.

Though the Government of India accepted the 2s. (gold) rate and attempted to maintain the exchange rate at the high level its efforts in this connection were not crowned with success. The market price of gold did not fall so much as to permit the stablisation at 2s. gold. In the market the value of per tola of gold was near about Rs. 21 while if the Government sold gold at the rate of exchange fixed by it, it would have to supply per tola of gold at about Rs. 16. Such a transaction meant a clear loss to the Government. The demand for remitting gold to London increased very much because the speculators anticipated that the rate of exchange could not be maintained at the high level and therefore it was proper time for taking advantage of the favourable rate at which the Government agreed to supply gold. The war-time profits earned by the businessmen tempted certain section of the people to float new business and to import machineries for that purpose. The demand for remittances abroad increased abnormally. The reverse councils were sold by the Government in response to the heavy demand for remittance. This resulted in an enormous loss of the gold resources of the Government and ultimately the Government had to abandon the 2s. gold rate. The next attempt of the Government was to maintain the 2s sterling rate but this attempt also did not prove successful. The reserves kept in London were reduced to great extent by this

unsuccessful attempt on the part of the Government to maintain the exchange rate at this high level. The public opinion in India vehemently protested the adoption of such policy which meant a loss of gold reserve of the country. The sale of reverse councils was also unjustifiable because that step should only be taken during the unfavourable balance of trade. The sale of reverse councils from January 1920 to September of that year amounted to £55 millions (approximately).

Sc. 18. How the Indian Exchange fell and how it was raised.

We have seen in the preceding section how the Government incurred a heavy loss in attempting to maintain the theoretical gold value of the rupee. The Government therefore had to abandon its attempt in September 1920. But this artificial maintenance of the rate had its worst effect upon the foreign trade of the country. The export trade was discouraged and there was a stimulus to the import trade. Again during that time the export trade declined greatly for other causes. There was a failure of Indian monsoons which brought about a failure of harvests. At the same time demand for India's commodities from Europe and Japan fell very much. Thus there was an appreciable diminution in the export trade of India and the net result was a balance of trade against India. In 1921-22 the unfavourable balance became as large as Rs. 34 crores (approximately). This led to a fall in exchange. Again the price of silver began to take a downward course during that time. And on account of these two causes the exchange rate fell below 2s. gold or 1s. 3d. (sterling) in 1921. The Government of India tried to check the fall by contracting the circulation of paper currency but this could not improve the currency situation.

The balance of trade was against India.

The attempt of this Govt. to raise the exchange rate.

The rate of exchange could not be maintained and 2s. (gold) ratio which was adopted by the Government in accordance with recommendation of the Babington Smith Committee became ineffective. It should be noted in this connection that the committee committed a great mistake in recommending the 2s. (gold) rate. The committee did not take into account one important cause of the rise in Indian Exchange viz. the greater rise in sterling prices as compared with the rise in rupee prices. For this reason the 2s. (gold) rate as recommended by the committee meant overvaluation of the rupee and could not be maintained during the post war period when the sterling prices began to fall more rapidly than the Indian prices. Such a falling exchange prejudicially affected the import trade of the country and increased the sterling obligation of the Government of India. One important cause of this heavy fall in the exchange value of the rupee was the redundancy of the currency in circulation. During the war time the currency was inflated to the utmost point by the issue of notes against created securities and by the increased coinage of token money. Such an increase in circulation was necessary during the war time when the trade was brisk, but after the war was over the trade boom began to pass away very rapidly and as a result of the reduction in the volume of trade the inflation of currency manifested itself in prominent form. This led to a fall in the value of rupee and rise in prices. When the Government came to realise the root cause of the falling exchange it attempted to check such fall and to raise the Indian exchange by suspending the purchase of silver and the coinage of rupees for a period of time. This restriction on the coinage of rupees improved the currency situation and the exchange rate began to rise gradually. It reached the pre-war level (1s. 4d.) in 1923 but this upward

The rise in the rate of exchange.

Rise in exchange was due to contraction of currency.

tendency continued and in 1924 the exchange value of the rupee was equivalent to 1s. 6d. sterling. The rise in Indian exchange did not stop there but continued till March, 1926 and the rate of exchange reigned in the neighbourhood of 1s. 6d. gold for a considerable period of time. This rise in the exchange rate which was brought about by the artificial contraction of currency and the favourable balance of trade since 1922 was conducive to the interest of the Government and hence it was very anxious to have the exchange rate stabilized at 1s. 6d. ratio. A Royal Commission on Indian Exchange and Currency of which Mr. Hilton Young was the president was appointed in 1925 to examine the currency system as it stood during that time and to make necessary recommendation for its reform.

Sc. 19. The defects of the Gold Exchange standard.

The Gold Exchange standard system is not the best monetary system that can be profitably adopted by India because of certain inherent defects. These defects can be discussed in the following manner:—

A managed currency.

The first defect that exhibits itself in the operation of this peculiar system of currency lies in the fact that the system requires a good deal of management on the part of the Government; hence this system of currency is vitiated by all the defects of a managed currency; but there are authorities who highly speak of such a system and regard it as automatic as the currency system of the United Kingdom. The Chamberlain Commission denied that the Government had any power to manipulate the currency for its own ends and add to the active circulation of the currency except in response to the public demand. Mr. Keynes also held the

same view and protested against the idea that the Government manipulated the currency and was responsible for any evil accruing from such manipulation. He contended that in case the Secretary of State ceased to sell council bills in response to the demand for trade sovereigns would be imported into India and presented to the Treasury for redemption and the effect on the volume of circulation would be the same. If we critically examine the line of argument we find the fallacy that is present in it. True it is that the Secretary of State sells council bills in response to demand for trade; but does that demand represent the whole volume of trade? Does the whole volume of trade increase necessarily in proportion to the external trade with reference to which the council bills are sold by the Secretary of State? The answer is in the negative. Now since the Secretary of State sells council bills and expands currency in response to a part of the trade which is external and not in response to the total volume of trade—which may not increase in proportion to the external trade the system of currency increases sometimes the total purchasing power much more than an automatic system would do.

External trade does not represent the whole volume of trade.

Similarly, the Gold Exchange standard system has been less automatic in the reverse direction. Under this system rupees are not convertible into gold inside the country, nor are they convertible externally except in the case of fall in exchange when the Government sells 'reverse councils'. Bnt we should care to note in this connection that character of exchange depends on many factors other than the conditions of internal trade. There may be depression of trade and redundancy of currency and yet heavy and continuous borrowing on the part of India may reverse the tendency to weak exchange and render the sale of reverse councils unnecessary.

It is less automatic the opposite direction.

No adjustment of currency through price level.

Again, the management of the Indian Currency system impedes the automatic working of the "natural corrections to favourable and unfavourable exchange." We know how exchanges in gold standard countries having free market for gold are automatically adjusted to the international price-level. If the price-level is higher in one country there will be an excess of import over export and gold will flow out of the country for the payment of the prices of the surplus import. In this way the volume of currency is adjusted to the international price-level. The case of India is different because of the less automatic character of its currency system.

The price-level of India does not correspond to the international price-level. During the period 1920-22 prices fell heavily in America, England and many other countries but in India the fall was not so extensive. The reason of this contrast is, as we have already seen, easy to seek. Here in India there is no easy and satisfactory method of withdrawing currency from circulation.

It stimulates hoarding habit.

It is important to notice, in this connection, the relation which subsists between the Gold Exchange Standard and the hoarding of precious metal with which habit Indians have been imputed often with some degree of exaggeration from the European quarters. India has been designated as "sink of precious metals" We admit that there is a degree of truth in this remark. But Indians are not to blame for this habit of hoarding. It is the outcome of the present currency policy. The standard of value in India is, in fact a token coin which is also unlimited legal tender. People who have, in some way or other managed to procure gold (metal or coins) do not invest because they have not the option of being repaid in gold. It is essentially necessary in a sound currency system that the standard coin should have stability in

Rupee a token coin having no stability in value.

purchasing power. In India the rupee which, though it is unlimited legal tender is a token coin is not endowed with stable purchasing power. A rise in price is inevitable if a rise in the exchange value of the rupee is to be prevented during the favourable balance of trade.

Again, the adoption of the Gold Exchange Standard has been responsible for the accumulation of reserves in a foreign centre for the purpose of its being used once in a decade when the unfavourable balance of accounts has to be liquidated. Again the locking up of the reserve in separate vaults for separate object has the effect of withdrawing this much needed funds from the capital market of the country. The control of currency and credit has not been placed under a single authority. In India the Government controls the currency system but the credit system is controlled by the Imperial Bank. This division of responsibility necessitates duplication of the reserves.

Nicholson's remark.

It is interesting to quote in this connection several remarks that have been made on the nature and character of the Gold Exchange Standard by eminent authors—"Gold Exchange Standard" says Nicholson "is available only for dependent countries; in short, it is not a monetary system but a connecting link between an isolated market and the broader market to which it looks for support."

Sir Robert Giffen made the following remarks on Mr. Lindsay's scheme on which the Gold-Exchange Standard system is based. "No doubt these schemes in fair weather times and for a certain time might work but I do not think that they can be depended upon permanently." The The Indian currency has proved to be only a "fair-weather currency."

Sc. 20. Arguments in favour of the Gold Exchange Standard.

Several arguments have been advanced in favour of the Gold Exchange Standard and it will be interesting to note these arguments.

Stability of exchange is necessary for foreign trade.

(1) Stability of exchange is of pre-eminent importance for foreign trade and the constant fluctuation of exchange rate will prejudicially affect the volume of such trade. The Government interest, the interest of the fixed salaried people who remit money from India and the interest of the capitalists who send capital to India for investment will suffer greatly if the rate of exchange does not remain stable. The future sale of bills as remittances is only a second rate protection afforded to the merchants but other classes can not be protected permanently by this method.

(2) So long as the world conditions are unstable we can not have both stability of exchange and stability of prices at the same time.

(3) Even under the Gold Exchange Standard India can obtain the necessary gold that she requires.

(4) The Gold Exchange standard is really a gold standard supported by the Gold Reserve and for gold standard the circulation of gold currency is not necessary.

(5) A judicious operation of the Gold Exchange Standard would free it from all the defects experienced in the past as a result of mismanagement.

(6) The present state of economic education of the people will not permit the adoption of gold standard saturated with gold currency.

(7) There is economy in the cost of home-currency. Precious metal like gold is not used for currency purposes and the profit of rupee

coinage is kept in a gold reserve which again has been invested mainly in securities.

(8) Stability of exchange with gold countries within government limits can be secured easily; as a device for exchange stability it is better than bimetallism or any other system.

(9) The Gold Exchange standard may be easily and wisely managed by the Central Bank.

The system is far from being simple.

The bitter experience that the Government had during the time of the war in connection with the maintenance of the exchange value of the rupee has led to a change of views and the defects of the existing system manifested themselves in naked forms. The existing Hilton Young Commission summarised the defects of the system of currency in the following manner:—First, the system is far from being simple and the basis of the stability of the rupee is not easily intelligible to the public; we know that even as great an economist as Mr. Keynes highly speaks of the merit of the system. In his book on "Indian Finance and currency" his appreciation of the system runs thus "In the Gold Exchange Standard and in the mechanism by which this is supported, India is in the forefront of monetary progress"; but the theoretical merit of the system can be understood only by the intelligent students of economics and not by the general public. In the circulation we find two kinds of token money—the rupees and the rupee-notes—and the Government is under obligation to convert the notes into rupee whenever demanded. Such a system is very expensive because it contains a valuable token coin (the rupee) which can be easily replaced by the paper money. Again the value of the rupee is intimately connected with that of the bullion and whenever the value of silver bullion increases the rupee has a chance of vanishing from circulation.

The system is expensive.

It necessitates a cumbrous system of keeping two kinds of reserves.

Secondly, the system is defective because of the cumbrous method of keeping two kinds of reserves—the Gold standard and the paper currency Reserves—and the dangerous and antiquated division of responsibility of the control of credit and currency between the Government of India and the Imperial Bank.

There is no automatic adjustment.

Thirdly, there is no automatic adjustment of currency in response to ever-fluctuating demands for the same. This is due partly to the Government control over currency affairs and partly to the defective method that has been taken recourse to in expanding and contracting currency.

It is inelastic.

Lastly, the system is inelastic. The expansion and contraction of currency has little or no reference to the volume of trade but depends absolutely upon the caprice of the currency authorities.

Sc. 21. The introduction of Gold standard with Gold currency in India.

The earlier commissions were in favour of the introduction of gold currency.

In India agitations have been made since 1864 for the introduction of gold currency. The Indians appreciate fully the advantages that can be derived from such a system of currency but the Government has been always regular in rejecting their legitimate demand. The two earlier commissions on Indian currency viz. the Herschell Committee and the Fowler Committee were in favour of the introduction and circulation of gold coins in India. The Government, however, agreed to introduce gold coins for a period of time by authorising the currency officers, the post offices to issue sovereigns to make payment. The amount of sovereign thus thrown into circulation was too insignificant for a vast country like India and as these sovereigns did not return to the treasury in full the Government at once came to the conclusion that

Govt's experiment failed.

India could not use gold coins with profit. Hence the policy of introducing gold coins was stopped.

Movement for gold currenc 1912

Next agitation was made in the year 1912 when Sir Vithaldas Thakersay moved a resolution recommending the mints to be thrown open to the free coinage of gold coins. In moving that resolution he summarized very nicely the arguments that could be advanced in favour of gold currency. Another vigorous agitation was made during that time by Mr. Webb. The Chamberlain Commission which fully discussed the advisability of the introduction of gold currency in India finally recommended against such currency but still the Committee added that there could possibly be no object against the introduction of gold currency in India if such system was genuinely demanded by the Indians and the Government was in a position to meet the expenses incidental thereto.

Chamberlain Commission's view.

Babington Smith Commission view.

The Babington Smith Committee of 1920 recommended that issue of gold coin in moderate quantities should be one of the methods of meeting the increased demands for currency. The Committee, however, did not support the increased use of gold in currency but suggested moderate use of gold whichwould supplement the use of silver and reduce the pressure upon it.

Arguments against the gold currency.

The Hilton Young Commission rejected the proposal for a gold standard with gold currency for the following reasons :—

Fall in word prices

(1) It will lead to fall in world prices; the demand for gold will increase very much and the European countries will suffer greatly as gold is required in those countries for the purposes of reconstruction. India will not remain unaffected by such a fall in gold prices.

Gold will be hoarded.

(2) It will not check the hoarding habit of the people and gold will remain in private hoards unless the infusion of banking facilities has led to the growth of a habit of making investment.

Fall in the price of silver.

(3) The use of gold currency will reduce the demand for silver and lead to fall in its value.

Savings will be depreciated.

(4) The savings of the poor which are usually made in terms of silver ornament will depreciate in value to the extent of 50 per cent. No effort of the Government will succeed in maintaining the present value of the silver artificially.

The interest of China will be affected

(5) China will be surely hard hit by such a currency policy of India and will hasten towards the adoption of gold standard and gold currency and the result will be that the demand for gold will increase rapidly to the prejudice of the gold-using countries.

(6) War had taught the gold-using countries to dispense with the use of gold in currency. The currency system of England which was introduced in 1925 did not favour circulation of gold coins; similarly, the United States practically ceased to use gold coins in currency. India should not adopt such a system of currency when other nations have keenly felt the difficulties of such system and are trying to abandon it.

To the above arguments we can add several others which are often urged against the introduction of gold standard and gold currency in India.

It will be wasteful and expensive.

(i) Gold currency is an expensive and wasteful medium. It involves the locking up of a large portion of a country's capital for exchange purposes to the detriment of the industries of the country. It has been therefore termed as relic of barbarism although the countries claiming the highest degree of civilization is found to maintain it.

(ii) Gold in circulation is no good support for exchange in crisis. So a gold-Exchange reserve would still have to be maintained to support exchange.

Drain of gold stock.

(iii) It will lead to a drain of the gold stock held in London. Again, considerable amount of loan is to be incurred if India will return immediately to the gold standard. This loan can possibly be obtained from the U. S. A.

(iv) The poverty of the Indian people and the small scale of payment will render gold coin unsuitable for every day purposes.

(v) India will have to sell the amount of silver at a disadvantage on the other hand the price of gold will increase on account of the extensive demand for it.

Ideal system will not be attained

(vi) Gold standard with gold currency will not help India in reaching the ideal system. The most progressive system will make an economy in the use of precious metals and throw into circulation the cheaper money materials.

Managed currency is not always defective.

(vii) A managed currency system is not necessarily a defective system. The present system which is under the supreme control of currency authorities has been as automatic as possible because the Government is seen to increase the supply of currency in response to demands for money.

(viii) The establishment of a mint for the coinage of gold in India is unnecessary because gold comes into India freely from Australia, Egypt and other countries.

Sc. 22. Arguments in favour of the Gold standard with gold currency.

A more convenient and a portable medium.

(1) Gold currency has the advantage of introducing a more convenient and portable medium of exchange than the silver rupee. The Chamberlain Commission criticized the argument

and said that India must continue for many years to use rupees for making small payments which form the bulk of internal transactions; but that can hardly be a reason for denying the right of the people to have their token coins converted into gold when they wished to do so. No advocate of gold standard with gold currency will ever object to the popularity of the rupee as the chief medium of exchange if it were only limited legal tender and freely convertible into gold.

It is a step to the attainment of ideal currency.

(2) The ideal currency system which consists in the use of paper notes issued against gold reserve cannot be attained unless people have been given the privilege of using gold coins in circulation for a period of time. In refutation of this argument the majority of the members of the Chamberlain Commission attempted to show that history gave no support to the view that a paper currency of the above description could be reached only after a gold currency had been in circulation. Sir James Begbie, the only dissenting member of the Royal Commission was intelligent enough to contend that the system of making the currency note encashable not in gold but in rupee was pernicious in as much as it had the effect of keeping gold out of useful employment. People who prized gold so highly as to store and hoard it were not likely to invest it so long as they had to take the risk of being repaid in token coins which were legal tender.

All civilized countries have adopted the system

(3) There is some prestige attached to gold currency because almost all the civilized countries have adopted this system. It is the less progressive nations that still continue with silver currency. As against this argument the Chamberlain Commission said that a distinction should be drawn between gold standard and gold currency. The civilized countries had already economised the use of precious metals by increasing the use of cheques.

(4) If gold coins remain in circulation in large quantities they will render great assistance in supporting the exchange. It will help the exchange rate

As regards this argument the Chamberlain Commission opined that such a state of things could possibly arise only when gold was used in active circulation to the same extent as it was used in Egypt and such an active circulation could hardly be possible unless a large amount of rupees was withdrawn from circulation and the note-issue was reduced considerably; but a mere addition of gold coins to the existing stock of currency in circulation would, as the Commission thought, have the effect of jeopardizing the exchange rate. Moreover, in the opinion of the Commission the Currency history of England and Germany did not prove the fact that gold in active circulation was a support to the exchange. Active circulation of gold will not be possible unless a large amount of rupees was withdrawn.

Sir James Begbie on the other hand contended that though gold in reserve was better than gold in circulation for the support of exchange gold in circulation was a better protection for exchange than token coins. Moreover reserves of gold could be accumulated from a gold circulation through a system of note-issue against gold.

(5) The system of managed currency will continue to the detriment of the trade and industry of the country unless and until mints are thrown open to the free coinage of gold. Evils of managed currency.

As against this argument the Commission pointed out that the Indian currency could be described as a managed system only in the limited sense that rupee was a token passing at a value above its intrinsic value and at the same time was unlimited legal tender. In every other respect it appeared to them to be as automatic as that of the United Kingdom. They How the system has been supported.

denied that the Government of India had any power to manipulate the currency for their own ends and add to the active circulation of the currency except in response to the public demands. Keynes vehemently protested against the idea that the volume of currency was made to depend upon the caprice of the Government and contended that in case the Secretary of State did not sell council bills in response to demand for trade people would import sovereigns into India and demand from the Government rupee in exchange for them and so effect the same increase in the volume of currency as would have been caused by the sale of council bills.

A hidden fallacy.

It is not difficult to find out the fallacy that vitiated the above reasoning. The Secretary of State sells council bills and thereby expands the currency in response to the demands of a part of the trade which is external and not in response to the demand of trade as a whole. Now since the whole volume of trade does not increase necessarily in proportion to the external trade the system increases the total purchasing power much more than a real automatic system would do.

Want of ready adjustment.

Similarly, the Currency system has been less automatic in the reverse direction. Legally, the rupees are not to be converted into gold within the country, nor are they convertible externally except on those rare occasions when the sale of reverse council becomes necessary on account of the weaking exchange during the unfavourable balance of trade. Withdrawal of currency by sale of reverse councils is therefore possible only when the external trade of India falls but it may be quite possible that at the same time the whole volume of trade may remain the same. Under such circumstances a withdrawal of currency will mean contraction in currency.

Again, the whole volume of trade may be reduced but there may not be a fall in the Indian exchange because the exchange is influenced by many factors other than the internal condition of trade. In that case there will be no reduction in the currency in circulation with the result that there will be rise in prices.

India can supply the gold necessary for gold currency.

(6) India produces a large quantity of gold every year and in consequence will not have to depend upon foreign gold-using countries for the supply of gold necessary for her currency. The other countries that are profited by India's gold will no doubt be harmed by such an act on the part of India but a country cannot be expected to sacrifice her own interest for promoting the interest of another country.

Use of silver will not be abandoned.

(7) The use of gold coins does not carry with it the idea of abandoning the use of silver coins. Silver rupees will be required in large quantity and the Government will be in a position to derive profit from the coinage of rupees.

Habit of investment will be promoted.

(8) The opening of the mints to the free coinage of silver will have the effect of reducing the amount of gold bullion that remains buried in private hoards People will be given an opportunity of turning their stock of gold bullion into coins so that they may be invested in profitable business. The introduction of gold currency will thus help the growth of a habit of investment which is a necessary condition of industrial success.

Indian sentiment is against the existing system.

(9) The Indians are not satisfied with the present system of currency which makes the token rupee an unlimited legal tender. India has no standard coin with reference to which the debts may be repaid and which may help the people in determining exactly the value of commodities. Nicholson makes the following remark about the Indian currency system.—"The Gold Exchange Standard is an inferior standard which

suffers from serious drawbacks and in fact is not standard at all." Again, it has been described as a system which can exist only in a dependent country.

India imports precious metals.

(10) India imports large quantity of gold every year because of her favourable balance of of trade. The amount of gold so imported will help the people greatly in meeting the demands for gold for currency purposes. Again, the demand will not be very great because there are few persons in India who can afford to use gold coins for the purposes of exchange.

Sc. 23. The currency situation before the appointment of Hilton Young Commission.

During the war period the Indian Exchange could not be maintained by the Government on account of certain cause which we have already discussed. Just after the war the Babington Smith Committee was appointed to make recommendation as to the stabilisation of the exchange rate. The Committee recommended that the exchange value of the rupee should be fixed at 2s. (gold). Owing to the circumstances to which we have already referred the Government failed in its attempt to maintain the exchange rate at 2s. (gold). World prices were taking a downward course but the Government of India could not contract the currency sufficiently so as to keep pace with the fall of prices. The Indian exchange, therefore, reached the low level of 1s. 3d. or 1s. (gold) in 1921. The Government which had interest in raising the exchange value went on contracting currency and managed to raise the exchange to 1s. 4d. (gold) by October 1924. In this manner the Indian exchange began to acquire new strength gradually but it was not allowed to exceed 1s. 6d. by the free purchases of sterling

How the Government raised the exchange value of the rupee to 1s. 6d.

made by the Government of India. The exchange rate thus prevailed in the neighbourhood of 1s. 6d. The Hilton Young Commission was then appointed to examine the existing system and to make recommendation regarding the reforms that should be introduced.

The Commission dealt with the following important subjects :—

(1) The introduction of a gold standard for India.

(2) The establishment of a Central Bank.

(3) The fixity of the ratio of the rupee to gold.

(4) The arrangement that should be made during the transitional period before the Central Bank comes into existence.

The scheme submitted by the Govt. was rejected by the Commission.

The Government of India submitted a scheme for the introduction of gold standard with a gold currency. This scheme spoke of transferring the management of the paper currency and the remittance business of the Government to the Imperial Bank of India and suggested that gold coins and Bank notes should be unlimited legal tender and the rupees should be limited legal tender upto Rs. 50 only. It cast upon the Government an obligation to give gold coins in exchange for gold bullion and upon the Bank a statutory responsibility of redeeming the bank notes into gold coins. The Commission rejected the scheme on the ground that adoption of such a scheme would require at least £103 millions and such a heavy expenditure would seriously tax the resources of a poor country like India. The Commission also referred to the other hackneyed arguments that could be advanced against the introduction of gold standard with gold currency in India.

Sc. 24. Gold Bullion Standard.

The Hilton Young Committee suggested a novel from the currency system which may be described as a Gold Bullion Standard. The characteristics of such a system may be summarized in the following lines :—

What is meant by Gold Bullion Standard.

The local currency should consist of silver rupee and notes and gold should not circulate as money. The standard of value should not, therefore, be represented by a gold coin but the Government would secure the stability of the currency in terms of gold by making the local currency convertible into gold for all purposes. In this respect the system would differ from Gold Exchange Standard according to which the Government took the responsibility of supplying the people with gold whenever it was required for making foreign payments; but it should not be concluded that the Government would give gold in exchange for rupees whenever the people would demand the same in any quantity. The Commission suggested a minimum quantity of 400 fine ounces and the Government would be under statutory obligation to buy and sell gold at rates determined with reference to a fixed gold parity of the rupee provided gold demanded or supplied is not less than 400 fine ounces. In order to protect the Bullion-market the Committee suggested that the Government would sell gold at rates which would enable the bank to increase the stock of gold without loss by importation from London.

An obligation thrown upon the Govt.

Object of the scheme.

The object of recommending the introduction of such a peculiar system was principally to economise the use of gold in India. The Committee was against the circulation of gold coins and recommended the withdrawal of legal tender quality from the sovereigns and half-sovereigns. The gold-buillion standard would, as the Committee opined, provide for automatic expansion

and contraction of currency in response to demand for trade. The currency would expand when notes or rupees were issued by the currency authority in exchange for gold bars and would contract when it gave gold bars for notes and rupees. In this way the stability of the gold value of the currency would be maintained. Again, the system of currency would, as the committee thought, have all the characteristics of a sound monetary system. The system would ensure simplicity and certainty and would not cause a sudden exhaustion of the gold reserves because rupee would retain its legal tender quality and the currency authority would not compete with the buillion market in fixing the rate for the sale of gold.

The issue of gold certificates

The Committee suggested several other reforms which would lead to a successful working of the above scheme. One such reform consisted in the issue of gold saving certificates which would be redeemable in three or five years in legal tender money or in gold at the option of the holder. The effect of the issue of such certificates would, as the Committee thought, impress upon the masses that there was really a gold standard and at the same time induce them to invest their stock of gold.

The issue of new notes not legally convertible into silver rupees.

The Committee appreciated the difficulty that followed from the legal provision for the conversion of notes into rupees and in consequence, recommended that the new notes should no longer be legally convertible into silver rupees; but these notes should be convertible into gold (in quantities not less than 400 ounces) into silver rupees or into notes of smaller denominations at the option of the Government. In this manner there could possibly be a dethronement of the rupee and the currency system would be less subject to fluctuation in the value of silver. The Committee, however, did not

advise the withdrawal of the promise to redeem the existing notes into rupees because such withdrawal would mean a breach of promise on the part of the Government and destroy public confidence.

Issue of one-rupee notes.

The Committee also suggested the substitution of the silver rupee by one-rupee note; this latter kind of notes should have full legal tender and the notes of higher denomination would be redeemable in terms of one-rupee notes.

Unification the two reserves.

Another recommendation made by the Commission was the unification of the two reserves, the Gold standard and the Paper currency reserves. The two reserves could be unified without any disadvantage because the introduction of the the new notes not redeemable in silver rupees would do away with the necessity of keeping a seperate reserve for ensuring convertibility of such notes. The proportional reserve system should be introduced and at least 40 per cent of the reserve should be kept in gold and gold securities. The currency authority should strive to work up to a reserve of 50 to 60 per cent. Attempt should be made to raise the gold holding to 20 per cent. in the near future and to 25 per cent. within ten years. The silver holding should be reduced substantially during the period of ten years. The balance of the reserve should be kept in self-liquidating trade bills and the Government of India securities.

Sc. 25. The stabilisation of the Exchange rate.

Stablisation of the exchange rate at 1s. 6d.

Another recommendation that the majority of the members of the Hilton Young Commission made was in connection with the stabilisation of the exchange rate at 1s. 6d. The market-rate of exchange was during the time when the Commitee was appointed, in the neighbourhood of 1s. 6d. This high rate was the outcome of contraction

in the currency effected by the Currency authorities. The Government had an interest in so raising the exchange rate because it would thereby reduce its sterling obligation in connection with the payment of Home charges. The majority of the members of the Commission recommended the fixation of the exchange rate at 1s. 6d. but Sir Purushottam Dass Thakurdas sent a minute of dissent recommending the fixation of the exchange rate at 1s. 4d. We shall now summarise the arguments advanced in favour of 1s. 6d.

(i) Arguments for 1s. 6d.

Price level has been adjusted to the exchange rate.

(1) The price level in India has been adjusted to the exchange rate 1s. 6d. This is shown by the marked fall in prices of commodities since 1925. The world prices have taken a downward course and in response to that tendency the Indian prices have also fallen. Again, the exchange rate has remained steady for considerable period so as to give enough opportunity to the prices to adjust themselves to the prevailing rate of exchange. The rise in the exchange value of the rupee is indicated by the fact that people have not taken advantage of the offer made by the Government to sell sterling at 1s. $5\frac{3}{4}$d.

Wages have adjusted themselves to the present ratio

(2) The price level and the exchange rate have been fairly steady for a considerable period of time and from this it can be presumed that the wages have been adjusted to the prevailing prices and exchange. The burden of proving that the wages have not yet adjusted themselves to the prevailing rate is thrown upon those who are against the stabilisation of the exchange at 1s. 6d. Again, the stabilisation of the exchange rate at a lower level may bring only temporary profit to the producers at the expense of the consumers.

The contract of persons will not be affected.

(3) The stabilisation of the exchange at 1s. 6d. would not seriously prejudice of interests of persons who entered into contract for paying revenue when the rate of exchange was fixed at 1s. 4d. because there has been a considerable fise in the prices of agricultural products. With regard to other long-term contracts the committee believed that the contracts entered into prior to 1918 and still in existence are fewer in number when compared with contracts concluded during the subsequent eight and half years when the exchange rate was more or less unstable.

No permanent benefit from reversion to 1s. 4d.

(4) The reversion to 1s. 4d. will not bring any permanent benefit to any section of the community. It will be beneficial to the interest of the debtors, exporters and employers of labour for a period of time which will be necessary for the conditions to adjust themselves to the stabilized rates. In the meantime it will prejudicially affect the interest of certain other sections.

Inflation of currency will follow from the reversion.

(5) Another consequence that would follow from the reversion to 1s. 4d. ratio would be the inflation in currency causing a rise in prices. Such a rise would no doubt be beneficial to the interest of the producers but it would have the effect of reducing the real wages of the labourers. The majority of the members pointed out that such reversion to 1s. 4d. would raise the general prices by 12½ per cent.

The reversion to 1s 6d. will increase the starling obligation.

(6) The sterling obligation of the Government would increase in as much as large amount of rupees would be required in making payment of the Home charges in sterling. This increase in sterling obligation would necessitate extra taxation. Again, it would affect the credit of the Government and make it impossible for the Government to secure credit at a favourable rate of interest.

(7) The Government officers would demand higher salaries because the prices of commodities would be considerably raised by the reversion to 1s. 4d. ratio.

(ii) Arguments in favour of the 1s. 4d. ratio.

(i) The majority of the members were of opinion that the prices had been adjusted to 1s. 6d. ratio. Sir Purushottamdas Thakurdas contended that there had not been complete adjustment. The fall in price had not been sufficiently great so as to justify the stabilisation of the exchange rate at 1s. 6d., on the other hand the relative price levels in India and other gold-using countries were at that time the same as they had been before the outbreak of war. All these circumstances would recommend the restoration of the exchange rate to pre-war level. Prices had not been adjusted to 1s. 6d.

(2) The wages had not been adjusted to the 1s. 6d. The argument that the exchange rate and the fall in prices had been fairly steady for a considerable period of time to warrant the presumption that the wages had adjusted themselves to the above ratio was not quite sound. The wages could possibly be reduced in response to the rise in exchange so far as the literate labourers were concerned but the illiterate class of labourers would strongly protest any reduction of their wages. Whenever any question of reduction would be raised there would surely be strike organisation to protest against such proposal. These strike organisations prevented the adjustment of wages to the prevailing exchange-rate. The stabilisation of the exchange rate at 1s. 6d. would, therefore, seriously affect the interest of industrialist and might destroy certain industries. The wages had not been reduced sufficiently.

(3) The stabilisation of the exchange rate at 1s. 6d. would stimulate the import trade during a period of adjustment of conditions to that rate 1s. 6d. ratio would stimulate import trade.

because it would have the effect of giving an indirect bounty of 12½ per cent. to the manufacturers. India would be flooded over with cheap foreign commodities and the indigenous industries would suffer greatly on account of foreign competition.

The revenue of the Govt from the customs would increase.

(4) The sterling obligation of the Government in connection with the payment of Home charges would no doubt be increased by the restoration of the exchange rate to 1s. 4d. but this loss would be compensated by a rise in the revenue derived from custom duties.

(5) The people who made commercial and industrial contracts when the exchange value of the rupee was fixed at 1s. 4d. would be injured by the stabilisation of the exchange at 1s. 6d.

Indebtedness of the people would increase.

(6) The agriculturists of India who were over head and ears in debt would be seriously affected by the stabilisation of the exchange rate at 1s. 6d. The rise in the exchange rate would reduce the price of agricultural products and in consequence, the agriculturists would get less money by selling their products, on the other hand the creditors would not favour them with any concession because of the fall in prices. The stabilisation of the exchange rate at 1s. 6d. would have the effect of increasing the agricultural indebtedness by 12½ per cent.

(7) It would be difficult to maintain the exchange rate at 1s. 6d. because the value of silver would possibly fall within a short time.

(8) The attempt of the Government to maintain the exchange rate artificially would result in a loss and the Gold Standard reserve would be considerably reduced.

The policy of discrimination will have no effect.

(9) The policy of discrimination which had been recently adopted by the Government in accordance with the recommendation of the Fiscal Commission would be ineffective in as

much as the artificial raising of the exchange rate would reduce the price of products to the detriment of the industrialists.

(10) The stabilisation of the exchange value of the rupee at 1s. 6d. would increase the rigour of taxation because people should have to part with larger amount of commodities in payment of a fixed amount of tax (in money.)

(11) The stabilisation of the exchange rate at 1s. 4d. would mean misery to the poorly paid members of the literate classes alone while the 1s. 6d. rate would prejudicially affect the interest of about 80 per cent. of the total population.

(12) The pre-war ratio of 1s. 4d. fluctuated along with ratios of other countries on account of the war. Other countries have striven to restore their pre-war ratios. India should therefore fall back upon the pre-war rate of 1s. 4d.

Sc. 25a. Critical examination of the ratio question.

The majority of the commissioners compared the Index Numbers and arrived at the conclusion that the substantial adjustment of prices to 1s. 6d. ratio had taken place; But although they admitted at the very beginning that Index Numbers could not be an infallible guide yet they forgot this fact when they strongly recommended the stablization of the exchange rate.

The majority of the members could not prove with reference to statistical evidence the adjustment of wages to the exchange rate. They were quite helpless and had to fall back upon a negative piece of evidence viz the 1s. 6d. ratio had prevented an increase in the salaries of the Government servants which would otherwise have been inevitable.

The inference drawn by the majority with regard the fewness of contracts made on the

basis of 1s. 4d. could not claim accuracy because people who expected the reversion of the exchange to 1s. 4d. would naturally base their contracts upon it.

Another point which the majority of the members emphasized in recommending the 1s. 6d. ratio was that the adoption of 1s. 4d. ratio would lead to a general rise of prices to the extent of 12½ per cent. This argument was fallacious in as much as it assumed that the price had already been adjusted to 1s. 6d. ratio.

The Minority report which embodied the recommendation concerning the 1s. 4d. ratio did not represent the true state of things. First, Sir Purosothamdas who submitted the minute of dissent did not correctly estimate the burden of rural indebtedness which the 1s. 6d. ratio would bring about because he did not take into account the benefits which the agriculturists would derive from cheaper implements and lower cost of production. Again, he ignored altogether the fact that a good deal of such debt is incurred in kind.

Again, Sir Pursothamdas laid too much emphasis upon the policy of deflation adopted by the Government in their attempt to raise the exchange rate. If we admit that deflation has been great we cannot at the same assert that there has not been a substantial fall in the level of prices.

Sc. 26. The Government measures.

The main recommendations of the Hilton Young Commission were embodied in three distinct bills. We shall presently consider the provisions of one such bill viz. the currency Bill.

The currency Bill and its provisions.

The Bill was introduced with a view to stabilize the gold value of the rupee at 1s. 6d. It cast upon the Government an obligation to purchase

gold at the rate of Rs. 21-3 as. 10 p. per tola of fine gold contained in bars and amounting to 400 ounces approximately. An obligation was at the same time imposed for selling gold at the above rate or at an equivalent rate payable in gold-standard countries provided gold was demanded in quantity not less than four hundred fine ounces. The Bill also contained another important provision which was concerned with the removal of the legal tender quality from the sovereign and the half-sovereign. The Bill was vehemently protested in the Legislative Assembly but Sir Basil Blacket supported it and advanced all the arguments that could be advanced in favour of the 1s. 6d. ratio. Again the majority of the elected members of the Legislative Assembly objected to the demonetization of the sovereign because such a measure would stand in the way of India ever adopting the gold standard with gold currency. Notwithstanding all these protests the Government of India managed to have that bill passed in 1927. By the same Act sovereigns and half-sovereigns were deprived of their legal tender characteristics but an obligation was thrown upon Government to receive these coins at all currency offices and treasuries at their bullion value reckoned at Rs. 21-3-10 per tota of fine gold, that is, Rs. 13-5-4 pies per sovereign of full weight.

Sc. 26(a). How the Government has maintained the 1s. 6d. rate ?

We have seen in the preceding section that the Currency Act of 1927 was passed with a view to give effect to the recommendation concerning the stabilisation of the exchange rate at 1s. 6d. The Government of India took upon itself the responsibility of maintaining the exchange rate. The Government felt and is at present experiencing some difficulty in

maintaining the exchange rate. India is, like other countries, passing through a period of trade depression due to the fall in prices. The speculative boom in the United States compelled the Federal Reserve Bank to restrict credit by raising the bank rate. The other countries had to raise their rate in order to protect their stock of gold. This resulted in a world-wide depression of trade and industry and led to fall in prices including the price of securities. India has been particularly hard hit by this world-wide depression. The price of cotton has fallen by 15 per cent. and the price of wheat by about 12 per cent. while the price of jute and rice has fallen considerably. The price of Indian securities has fallen with the result that the foreigners are not willing to invest thus capital in them.

The depression of trade and commerce which followed the passing of the Act of 1927 made the problem of exchange complicated. The Government had to take recourse to special measures in maintaining the 1s. 6d. ratio. The Government adopted the policy of deflation and effected contraction in currency by the transfer of sterling securities in the Paper Currency Reserve to the Secretary of State for the sterling expenditure against cancellation of currency in India. Again, the Government sold treasury Bills and thereby withdrew currency from circulation. The bank rate of the Imperial Bank of India was raised to 7 per cent notwithstanding the fact that the Bank had a sufficient cash balance at its disposal. The Government found it difficult to purchase sterling in open market and had to meet its sterling obligation by the transfer of sterling from the Paper Currency Reserve and by incurring sterling loans and by selling Treasury Bills. The above state of things has given rise to severe criticism

of the action of the Government in stabilising and maintaining the exchange rate at 1s. 6d.

Sc. 26(b). Criticism of tho Gold Bullion Standard.

The Hilton Young Commission recommended the introduction of a novel form of currency system known as the Gold Bullion Standard and opined that this system would win public confidence and promote the banking and investment habit of the Indians. This system, the commission argued, would be preferred to the Gold Exchange Standard system because it would provide for a reserve in gold against the internal currency. Various proposals including the scheme of Sir Basil Blacket were submitted for the introduction of gold currency in India. Infact, the Indian sentiments demanded the introduction of such currency. The commission, however, rejected all those proposals and found in the Gold Bullion standard all the characteristics of sound monetary system. The scheme was evidently based upon the analogy of the system of currency which England had introduced in 1925. The Gold Bullion standard would, as the commission thought, make gold bullion the standard of value and would ensure the convertibility of currency notes into gold bullion for all purposes. People would not be allowed to use gold for currency purposes and for this reason the commission recommended the withdrawal of legal tender characteristics from sovereigns and half-sovereigns. The system of currency, if introduced will be devoid of simplicity and intelligibility which are indispensable requisites of a sound currency system. Again a system of currency which an advanced country like England may profitably adopt or has been forced by circumstances to adopt may not safely be introduced in India where the

people are demanding gold currency. People will have no faith in the stability of such currency system and in consequence the system will fail to promote the banking and investment habit. The provision for convertibility into gold when the latter is demanded in quantities of not less than 400 ounces will be unreal because there are few people who can demand so much gold at a time. Again, the demonitization of sovereign and half-sovereigns at a time when the people of India urgently demands the introduction of gold currency is a retrograde step and will surely destroy public confidence.

Sc. 26(c). How does the Government make remittance to England ?

We know that the Government of India has to remit considerable amount of sterling every year in payment of what is known as Home charges. Formerly, these remittances were made through a system of sale of council bills in London. The Secretary of State for India used to sell these council bills in London in response to demand for the same obviously with the object of maintaining the rate of exchange and avoiding the export of specie from London. Out of the proceeds of the sale the Secretary of State discharged his obligation in connection with Home charges. As early as 1923-24 another novel system was introduced in India. The Government of India began to purchase sterling in India from banks and other financial houses. The sale of council bills however continued till 1925 when the system of purchasing sterling in India turned out to be the sole method of making remittance to England. In 1927 the Government introduced the system of purchase of sterling by competitive public tender in accordance with the recommendation of the Hilton Young Commission. The system helps

the Government in the matter of making remittances and preventing appreciation in the exchange value of the rupee above the point fixed by the Government. This system is better than the former system of selling council bills in this respect that the purchase of sterling can be regulated with reference the conditions of market and stringency in the money market can be removed as speedily as possible. The exchange banks are at an advantage in as much as they can get ready cash by selling their bills to the Government. The new system is defective in this respect that it does not enable the Government to get the best possible price for the rupee because the foreign demand for rupee can not be as easily known in India as it can be known in London which is the world's financial centre. Again, the purchase of sterling in India has been criticised on the ground that it checks the flow of gold into India.

Sc. 27. The system of Paper Currency ; its history.

Every civilised country uses paper money as circulating medium to a considerable extent; this is so because it is by the use of paper money that a country can economise the use of precious metal for currency purposes and thus can increase the stock of capital that will be available for investment. It is interesting to trace the development of the system of Paper Currency in India.

Prior to the passing of the Act XIX of 1861 the three Presidency banks of Bengal, Bombay and Madras enjoyed the privilege of issuing notes to a considerable extent; but the notes issued by these banks practically circulated within the Presidency towns and the sphere of circulation could not be widened because the banks had fewer branches. It was Mr. Lushington

The notes were issued by the three Presidency Banks before the Act 19 of 1861.

who suggested for the first time the desirability of the issue of notes by the Government. His memorandum was forwarded to the Secretary of State in 1859; but Her Majesty's Government disapproved of the scheme. Next suggestion for the introduction of paper notes issued by the Government came from the fertile brain of Rt. Hon. James Wilson. He recommended the issue of notes in accordance with the banking principle by keeping a metallic reserve amounting to one-third of the total amount of notes issued. The Government of India, however, did not think it safe to rely upon so small an amount of reserve but was advised by the then Secretary of State to adopt the currency principle of note-issue in imitation of the practice followed by the Bank of England. It is not out of place to explain what is meant by the currency principle. This principle suggests the issue of notes backed by an almost equivalent amount of reserve. The issue of notes against Government securities should be strictly limited and every note issued in excess of the fixed amount of fiduciary issue (i. e. notes issued against securities) should have a metallic reserve against it. This principle lays too much emphasis upon the convertibility of notes.

Wilson's suggestion.

The Govt. adopted the currency principle.

The Act XIX of 1861 withdrew the privilege of issuing notes from the three Presidency banks and created a Currency Department which would be entitled to issue notes. These notes were payable to bearer on demand. The lowest denomination was to be Rs. 10. The number of circles of issue was to be three or more and the reserve to be kept against notes should consist of mainly bullion and coin. The Government securities would not amount to more than 4 crores of rupees.

As the Currency principle regulated the issue of notes the fiduciary portion of the reserve was

kept at a low figure. This portion increased in forty years by 10 crores while the gross circulation increased by 45 crores. The entire reserve was kept in India until 1905 when the London branch of the reserve was created. The Acts IX of 1902 and III of 1905 permitted the Government to keep the reserve in rupees, gold coin, bullion or securities either in India or London with this limitation that all coined rupees were to be kept in India and not in London.

The fiduciary portion kept at a low figure.

The notes were at first redeemable at the respective circles of issue; attempts were made by the Government to universalize the notes of smaller denomination. The Act VI of 1903 made the five-rupee note a universal note in Burma as well as in other parts of British India. In 1910 the ten—and fifty rupee notes were made universal. The hundred-rupee note was also declared universal in 1911. This universalisation of notes had the effect of increasing the popularity of the notes issued.

Universalisation of notes.

The currency authority has issued notes of various denominations. We will find in circulation notes of the following denominations—Rs. 5, Rs. 10, Rs. 50, Rs. 100, Rs. 500, Rs. 1000, Rs. 10,000. There are at present seven circles of issue viz Calcutta, Bombay, Madras, Rangoon, Cownpore, Lahore and Karachi. The notes of Rs. 500, Rs. 1000, Rs. 10,000, are redeemable only at the circle that issues them. The notes of these descriptions issued by one circle can not be presented for redemption at another circle of issue.

Various denominations of notes issued.

Sc. 28. The Paper Currency Reserve.

As the issue of notes in India was based on the currency principle the amount of securities held in the reserve was strictly limited; but the Government had to increase this fiduciary portion from time to time. In 1899 this security or fiduciary portion was raised from Rs. 4 crores

How the fiduciary portion was raised from time to time.

to Rs. 8 crores. This portion was again raised in 1911 when the fiduciary portion stood at Rs. 14 crores. The sterling portion of the reserve was also raised from Rs. 2 crores in 1905 to Rs. 4 crores in 1911. The Chamberlain Commission which appreciated the inelasticity due to the necessity of keeping sufficient amount of metallic reserve recommended that the fiduciary portion of note-issue should be fixed at a maximum of the amount of notes held by the Government in the reserve treasuries plus one-third of the net circulation. The Commission also recommended that the Government should make temporary investment or loan with a view to remove the stringency of the money market.

Increase in fiduciary portion during the war time.

The Government could not act according to the recommendation of the Chamberlain commission because the increased demand for funds during the war time necessitated an extension of the fiduciary portion of the reserve. The pre-war limit was Rs. 14 crores but in 1918 it was raised to Rs. 86 crores. In 1919 it was raised and in September of that year it stood at Rs. 120 crores; of the Rs. 120 crores, Rs. 20 crores were invested in permanent securities and the rest consisted of temporary securities.

The gross circulation increased between March 31, 1914 and 1919 from 66 crores to Rs. 153 crores. In order to reduce the demand of silver for currency purposes the Government initiated an experiment of issuing small notes for Re. 1 and Rs. 2-8-0 in December 1917 and January 1918 respectively.

Sc. 29. Elasticity of Currency notes.

The adoption of currency principle made the system inelastic.

We have already seen that the Government of India adopted the currency principle of note issue. This principle has no doubt one important advantage which consists in keeping a sufficient

amount of metallic reserve against the notes that are issued. The convertibility of the notes is thus ensured. The principal defect of the principle lies in the fact that it makes the Currency system inelastic. This is because notes can not be issued unless the metallic portion of the reserve can be augmented. The supply of currency cannot be adjusted in response to demands for the same. The fiduciary portion of the reserve is to be strictly limited and notes issued in excess of the fixed amount of fiduciary portion of the reserve must have an equivalent amount of metallic reserve against them. During times of monetary stringency the defect inherent in such a system manifests itself in a prominent form. The Government adopted this principle because it had been adopted by the Bank of England but it failed to realise at that time that the circumstances of the two countries differed greatly and the principle that could be profitably adopted by England could not be adopted with success by India. The adoption of the currency principle has created stringency in the money market but this stringency has been removed to a great extent by the increased use of cheques by her people. In India, however, people do not use cheque in large quantities and the result is that almost the entire demand for currency is to be satisfied by the coinage of rupees and the issue of currency notes; restriction has been imposed upon the coinage of rupees by closing the mints to the free coinage of silver and if a similar restriction is placed upon the issue of notes there will be no other ways of adjusting the supply to the demand for currency.

The inelasticity is keenly felt during monetary stringency.

How the fiduciary portion was increased during the war time.

The Government keenly appreciated the stringency of the money-market and had to increase the fiduciary portion of the reserve from time to time. Chamberlain Commission made certain recommendations with a view to increase

the elasticity of note-issue. During the war the fiduciary portion was increased very much and the rigidity and lack of elasticity of the Indian Paper Currency system gave place to one too elastic to jeopardise the safety of the system.

The recommendation of the Babington Smith Committee. The proportional reserve system.

After the war was over the question of reforming the Paper Currency system was referred to the Babington Smith Committee. The Committee pointed out the evil that followed from the adoption of the Currency principle and recommended that the minimum for the metallic portion of the paper currency reserve should be 40 per cent. of the gross circulation. This Committee also recommended the proportion in which securities of various description should be kept in the reserve. This was followed by the Paper Currency Act of 1920 which showed that the Government of India accepted the recommendation of the committee in a modified form. The Act introduced for the first time the proportional reserve system and laid down that the metallic reserve to be kept against notes issued should be 50 per cent. instead of 40 per cent. of the gross circulation. This metallic reserve was practically reduced to 47½ per cent. because power was given to the currency authorities to issue notes to the extent of 5 crores of rupees against commercial bills of exchange. Such notes could not be issued except in times of real emergency because of the provision that the comptroller of currency with which such commercial bills would be deposited by the Imperial Bank would charge the Bank an interest which should not exceed 8 per cent. Besides the bills of exchange mentioned above the Act also defined the character and amount of other securities that might be kept in the fiduciary portion of the reserves. It limited the securities of the Government of India to a maximum of Rs. 20 crores of which not more than Rs. 12 crores should be created securities.

The reserve was practically 47½ per cent.

Again the fiduciary reserve should consist of the securities of the United Kingdom the date of maturity of which must come within one year. The Act of 1920 succeeded in removing the stringency of the money market by making provision for the issue of notes against commercial bills of exchange; but as the rate of interest charged was as high as 8 per cent. considerable difficulty was felt by the borrowers. Hence the above Act was amended so as to permit the grant of loans to the extent of Rs. 4 crores at the rate of 6 per cent. and thereafter with every rise in the rate of interest by one per cent. an additional amount of 4 crores would be available until a maximum of Rs. 12 crores was reached. Such provisions for meeting the stringency of the money market were contained in the Paper Currency Act of 1923. Again the Act 1923 reduced the permissible limit of investment to Rs. 85 crores and fixed the maximum amount of the gold holdings of the Secretary of State to Rs. 5 crores. The next important step that the Government took to remove the inelasticity of the currency system was the passing of the Paper Currency (Amendment) Act in 1925. This Act raised the maximum amount of fiduciary reserve from Rs. 85 crores to Rs. 100 crores and provided that the value of created securities should not exceed Rs. 50 crores. All these measures have removed the inelasticity of the currency system to a great extent. The principle upon which the currency system of India is at present based cannot be properly described as currency principle. The currency authorities started with the currency principle but on account of frequent reforms that had to be introduced the principle which at present governs the system of note-issue has been similar to the Banking principle of note-issue. Inspite of the above reforms introduced in the currency system the elasticity has not been complete and

The Act of 1920.

How the paper currency system has been made elastic by recent legislation.

The Act 1923.

The Act of 1925.

it cannot be complete unless and until the function of issuing notes is made over to a Central Bank.

Sc. 30. The recommendation of the Hilton Young Commission.

The legal convertibility of notes into rupees should be withdrawn.

We know that the notes issued by the currency authorities are convertible into silver rupees. Such an obligation on the part of the Government has been the cause of much inconvenience and sometimes when the price of silver rises the Government has to purchase silver at loss. Again a large stock of rupees is to be kept in reserve with a view to ensure the convertibility of notes. Hence the committee recommended that the new notes that would be issued should not be legally convertible into silver rupees. The rupees should be substituted by one rupee notes which should be full legal tender. The issue of such notes would effect a great economy in the use of silver and at the same time would facilitate the convertibility of notes of higher denomination in terms of notes of smaller denomination. In this way an ideal form of currency would be reached by India. A Reserve Bank should be constituted having the sole right of issuing notes for a period of (say) 25 years. The system of note-issue would thereby become elastic because the Central Bank would be in a position to adjust the supply of currency in response to demands for trade. The proportional reserve system should be adopted. Gold and gold securities should not be allowed to fall below 40 per cent. of the reserve except under certain condition. Attempt should be made to increase the gold portion of the reserve and at the same time to reduce the silver portion. The committee also recommended a unification of

The function of note-issue should be made over to the Central Bank.

the two reserves viz. the Gold Standard Reserve and the Paper Currency Reserve.

Sc. 31. The Paper Currency Reserve ; its composition.

The proportion of metallic reserve.

The Paper Currency Reserve consists of two parts—a security portion and a metallic portion. The proportion of metallic reserve to the notes in circulation is now regulated by the Paper Currency Act of 1920 as amended by the Acts of 1923 and 1925. According to the Act of 1920 the metallic reserve should not fall below 50 per cent. of the currency notes in circulation but as this direction could not be observed an amendment was made and the total amount of security to be kept against notes was limited to Rs. 85 crores. This amendment was followed by another amendment which raised the maximum amount of securities from Rs. 85 to Rs. 100 crores. Since the Act of 1920 gold and sterling securities held in the reserve were valued at Rs. 10 to the Sovereign.

The Act of 1927 provided for the revaluation of gold and sterling securities at the rate of Rs. 13-6-3 to the Sovereign. As a result of this revaluation there was an increase of Rs. 930 lakhs of gold and sterling securities which helped the Government in reducing the same amount of Treasury Bills.

The condition of the Paper Currency Reserve may be studied from the following table.

Years.	Gross circulation.	Silver coin in India.	Gold coin and bullion.	Securities.	Percentage of the total metallic reserve to gross notes in circulation.	Inland Bills.
1915	61·6	32·3	15·2	20·0	77·3	...
1918	99·79	10·7	27·5	61·4	38·4	...
1919	179·67	47·4	32·7	99·5	44·6	...
1922	174·7	78·87	24·3	70·9	58·2	...
1923	174·70	87·05	24·32	63·33	...	...
1925	173·3	74·1	22·3	77·1	55·5	...
1929	188·8	91·9	32·2	53·8	2·0	71·3
1930	179·6	103·7	32·2	39·9	...	77·8

The composition of the Paper Currency Reserve in 1926 was as follows:—

Notes in circulation		196,44,81,189
Reserve—Coin and Bullion		22,31,93,905
Silver bullion under coinage		7,87,00,190
		125,05,08,362
Securities		
In India	...	57,40,21,946
In England	...	13,99,50,881
		71,39,72,827

Sc. 32. The location of the Paper Currency Reserve.

The paper notes issued by the currency authorities were redeemable in terms of silver rupees. Hence adequate reserve in terms of rupees had to be kept in India. The whole of the reserve was previously kept in India but as gold began to accumulate in the reserve the Government had to remit the amount of gold to the Secretary of State in order that he might purchase silver and send the same to India for coinage. Such a cumbrous system was defective in as much as the Government had to pay the cost of transmitting gold from India to London. The Government, therefore, established in the year 1898 a reserve in London with a view to facilitate the purchase of silver whenever the Government of India would require the same for the purpose of coinage. Gold began to accumulate in this portion of the reserve in sufficient quantities because the Secretary of State sold council bills in response to trade demand. An Act was passed in 1898 which authorised the Government of India to issue notes against gold deposited in the Paper Currency Reserve located in London. Up to 1905 the sale of council bills was restricted to the amount of sterling that the Secretary of State required for the payment of Home-charges but since 1905 the Secretary of State began to sell council bills in response to demand of trade by a standing offer of bills at the specie import-point. This checked the outflow of gold from London and the result was that the London reserve began to expand gradually. The location of the Paper Currency Reserve in London has been the subject of severe criticism in India. In the next section we shall discuss the arguments that have been advanced against the

Why a part of the Paper Currency Reserve was located in London.

The outflow of gold from London was checked.

location and the arguments that have been advanced in favour of it.

Sc. 33 (i) Arguments against the location of the Paper Currency Reserve in London.

Why the entire fund should be located in India.

(1) The Paper Currency Reserve is meant for ensuring the convertibility of notes in India and in consequence, it is just and proper that the entire fund should be kept in London. If the entire fund is kept in India, a portion of it may be utilised in removing the stringency of the Indian money market.

It is not needed for maintaining the exchange rate.

(2) The location of the Paper Currency Reserve is not at all necessary to maintain the exchange rate because the Gold Standard Reserve is sufficient to satisfy India's balance of trade. The main object of keeping this reserve in London is to assist the London money market with India's money.

(3) The location of a Paper Currency Reserve in London is not necessary for facilitating the purchase of silver because the funds necessary for that purpose may be taken from the Gold Standard Reserve.

(ii) Arguments in favour of the location of a Paper Currency Reserve in London.

It will facilitate purchase of silver.

(1) The location of this reserve in London will facilitate the purchase of silver which may be required for the coinage of rupees. If no such reserve is kept in London the result will be that the Government of India will have to send funds from India in order that the Secretary of State may be in a position to purchase silver with an amount of promptness which is necessary to ensure the convertibility of notes.

It helps the payment of Home charges.

(2) The location of such a reserve in London will help the Secretary of State in the payment of Home charges during the unfavourable balance of trade. Ordinarily, the Secretary of

State realises the amount of Home charges payable by the Government of India by selling council bills but when the balance of trade is against India the Secretary of State can not realise the amount by the sale of council bills. When such a contingency takes place the location of a Paper Currency Reserve will enable the Secretary of State to withdraw an amount of sterling which is required for meeting his own sterling obligation and an equivalent amount in terms of rupees will be added to the Indian portion of the Reserve so as to keep the total reserve unaltered.

The council bills can be sold in response to trade demands.

(3) The location of the Paper Currency Reserve will enable the Secretary of State to sell council bills in response to trade demands. The sale proceeds of such bills will be kept in the London branch of the Paper Currency Reserve and an equivalent amount of silver rupees will be withdrawn from the Paper Currency Reserve which is located in India. In this way the supply of currency will be adjusted to the demand of trade.

Serve as a second line of defence.

(4) The gold kept in the Paper Currency Reserve will act as a second line of defence for the exchange, the first line being the Gold Standard Reserve; in other words when the unfavourable balance of trade is so large that the entire Gold Standard Reserve is exhausted the sterling drafts will be redeemed by withdrawing certain amount of sterling from the Paper Currency Reserve located in London.

Will avoid double cost of transporting specie.

(5) The location of such reserve will avoid double cost of transporting specie. If there is no such fund in London the Secretary of State can not sell council bills in response to trade demands with the result that gold will be imported into India in liquidation of India's favourable balance of trade. The amount of gold so imported will be presented to the treasury for

conversion and will be accumulated in it. Again when the fresh coinage of rupee will necessitate the purchase of silver this gold stock will again be transmitted into London. Thus we find that such a system of making payment to India can not avoid the double cost of transporting specie.

Facilitates the transfer of profits of rupee-coinage to London.

(6) Lastly, if the portion of the Paper Currency Reserve is located in London the Secretary of State will be in a position to transfer the profits of rupee coinage from India to London without causing any transfer of specie from India to London. He will withdraw an amount of sterling from the Paper Currency Reserve to the London portion of the Gold Standard Reserve and an equivalent adjustment will be made in India by the payment of the profits of the coinage to the Paper Currency Reserve.

Sc. 34. The present system of Currency.

Rupee is a token coin but is unlimited legal tender.

The Government of India has complete control over the currency system of India. The mints have been closed to the free coinage of silver. This has changed the character of the rupee. Formerly the rupee was the standard coin that is to say its full value represented the bullion value but closure of the mint has the effect of making it a token coin. India at present has no standard money. The face value of the rupee is higher than its bullion value and in consequence, the Government which has the absolute privilege of coining rupees derives a huge profit from such coinage; but though it has been reduced to the position of a token coin yet it is unlimited legal tender. People of India are bound to accept it in any amount in payment of what is due to them from others.

It is an inconvertible specie.

The rupee is not convertible into gold. It is therefore an inconvertible specie. It is sometimes termed as an inconvertible note printed

upon silver. The only difference that exists between the paper notes and the rupee is that the latter is a more valuable note than the former. The Hilton Young Commission suggested that the rupee which is a valuable token money should be replaced by the one-rupee note.

The value of silver rupee has been raised from time to time by means of artificial contraction of currency. After the war the exchange rate once reached 1*s*. 3*d*. but as the Government gained by a rise in exchange it managed to raise the exchange value of the rupee to 1*s*. 6*d*.; and the exchange value of the rupee was stabilised at 1*s*. 6*d*. in accordance with the recommendation of the Hilton Young Commission.

A reform has recently been introduced in the currency system. The Gold Exchange Standard which prevailed for a considerable period of time broke down during the war.

The Government controls the system of note-issue in India. The notes are convertible into silver rupees. Formerly the system was very inelastic. This inelasticity was due to the adoption of currency principle of note issue. The Act of 1920 as amended by the Acts of 1923 and 1925 has removed the defect to a considerable extent.

Questions and Answers.

1. Briefly summarise the recent currency legislation in India. Indicate briefly the circumstances that led to it and explain the necessity of artificially maintaining the exchange in India's favour. (C. U. 1910.—See Secs. 1 and 2.)

2. The rupee coinage of India is to all intents and purposes a token coinage. (C. U. 1911-1912.—See Sec. 34.)

3. The rupee is for some purposes merely inconvertible money printed on silver. (C. U. 1911-12.—See Sec. 34.)

4. Carefully explain—How does the rupee, though unlimited legal tender, fail to satisfy the full condition of standard money. (C. U. 1911-12.—See Secs. 34 and 22.)

5. What do you know of the Gold Standard Reserve Fund? (C. U. 1911.—See Sec. 13.)

6. Briefly summarise the Currency Legislation of 1893 and 1899 in India. Indicate the circumstances that led to it and explain the necessity of artificially maintaining the exchange in India's favour. (C. U. 1912.—See Secs. 4, 6, 1 and 2).

7. The rate of exchange is kept from falling by the combined effect of the closing of the mint to the free-coinage of silver and the balance of trade in favour of India. (C. U. 1914—See Sec. 7).

8. Analyse the arguments for and against the introduction of Gold Currency into India. (C. U. 1914.—See Secs. 21 and 22).

9. What was the central problem that was considered by the Indian Currency Committee of 1893? What bearing has the quantity theory of money on the solution of this problem. (C. U. 1916—See Sec. 2.)

10. What is the Paper Currency Reserve? In what form is it kept and what is the object of keeping it. (C. U. 1917.—See Secs. 31, 32.)

11. What is the usefulness of each of the component part of the Paper Currency Reserve? Why is it considered advisable to keep a portion of the Reserve in London. (C. U. 1917.—See Sec. 33 (iii).)

12. Explain precisely the meaning of a Gold Exchange standard. How does it differ from a simple Gold Standard? Which of these two standards do you consider the better for India and why? (C. U. 1919.—See Secs. 6 and 23.)

13. What is the Gold Standard Reserve? Give reasons for and against the keeping of this reserve in London. (C. U. 1923.– See Secs. 13 and 14.)

14. Show the main features of our recent currency situation. (C. U. 1921.—See Secs. 10, 17 and 18.)

15. Write notes on 'Reverse Council' and Gold Standard Reserve. (C. U. 1922.—See Sec. 13.)

16. Trace the history of the Indian currency system from 1835 to 1900. (C. U. 1923.—See Sec. 1.)

17. Describe briefly the essential features of the Gold Exchange standard. What part does the Gold Standard Reserve play in the Indian Currency system? (C. U. 1924.—See Secs. 6 and 13.)

18. Stability of Exchange is essential from the point of view of foreign trade. (C. U. 1924.—See Ch. XIII Sec. 9.)

19. How did the value of silver influence the Indian Exchange (a) during the period 1876-93 and (b) during the period 1917-20.—(C. U. 1925.—See Secs. 1 and 8.)

20. Summarize the main provisions of the Indian Paper Currency Act of 1910. (C. U. 1925.—See Sec. 28.

21. Trace the circumstances that led to the adoption of the Gold

Exchange standard in India. Describe the chief features and indicate the causes of its breakdown during the last European war. (C. U. 1926. —See Secs. 1, 2 and 8.)

22. What are the effects of a high sterling value of the rupee upon (a) Indian trade and industries, (b) Home charges. (C. U. 1926.—See Sec. 12.)

23. Show how the exchange value of the rupee was maintained at 1s. 4d. before the war and discuss the advisability of going back to the pre-war Exchange rate. (C. U. 1927.—See Secs. 7 and 22.)

24. "A gold exchange standard cannot provide an efficient remedy for the defects of the existing system of Indian currency." Discuss. (C. U. 1927.—See Sec. 19.)

25. Describe the main features of the Indian Paper currency system and state how far the recent changes have increased the security and elasticity of note-issue. (C. U. 1928.—See Sec. 29.)

Q. 26. Write brief notes on Reverse Councils; Gold Exchange standard C. U. 1929. See Secs. 6 and 7.

Q. 27 Discuss the economic importance of the stabilisation of the rupee. Would you advocate a reversion to the 1s. 4d. rate? Discuss the economic effects of such a policy. C U. 1929.

See Secs. 24 ; 25a.

Hints —Absence of a fixed rate of exchange hampers trade and commerce—Promotes speculation—checks investment of foreign capital—Producers suffer from uncertainty in prices—Budget cannot be estimated accurately.

Q 28. Write notes on Council drafts, Reverse drafts, the Gold Exchange Standard. C. U 1931. See Secs. 6 and 7.

Q. 29. What is the Paper Currency Reserve and what are its objects? Explain the form in which it is kept, and discuss how far the policy of keeping a part of it the London can be justified. C. U. 1930.

See Secs. 32 and 33.

CHAPTER XV.

BANKING AND CREDIT.

Sc. 1. What is Credit ?

Credit is an attribute of the borrower.

Credit means a reputation which a man has in the market and by virtue of which he can easily induce another person to put economic goods at his disposal. It is thus an attribute of the borrower. Prof. Gide says that it is a protracted exchange, that is to say, exchange which is not complete until a certain period of time has elapsed. When we purchase commodities with cheques which are credit instruments the transaction is not complete there. These credit instruments are accepted because the payee believes that the purchaser has account with the bank upon which the cheques have been drawn. These credit instruments will then be presented to the bank and sometimes cash will be demanded in exchange for them.

Sc. 2. Credit is an indispensable factor in business.

The importance of credit in modern business.

Production cannot be carried on without capital. In primitive societies when articles were produced by an antiquated method capital did not play an important part; but with the introduction of scientific method of production capital has come to play a more important part. A modern producer has to invest a large amount of capital in up-to-date machineries and has to keep in hand an equally large sum to meet the ordinary expenses of his business. He may not have with him sufficient amount of funds and

hence arises the necessity of borrowing. He will sometimes approach the banks or any other financier for loan; but he will hardly succeed in securing such loan unless he has some attribute which induces the financiers to favour him with credit. Again we find that an able business man will be in a position to purchase the raw materials on credit. It is, therefore, no exaggeration to say that modern business cannot be carried on successfully without the help of credit.

Inadequacy of banking facilities and its effect.

In India the business is mainly financed by the shroffs in the towns and by the mahajans in the villages. The absence or inadequacy of banking facilities has stood on the way of India's success in the sphere of production. The rate of interest that is charged by the village mahajan is too much exorbitant and the agriculturists of India suffer greatly on that account. In the towns traders are mainly financed by the shroff who charges a higher rate of discount and thereby reduces the rate of profit derived by them.

Sc. 3. The history of Indian Banking system.

The banking transactions were not unknown to India.

The utility of banking organisation was not unknown to Ancient India. The use of the term "kushid-jibis" in ancient texts of Manu goes to show that there existed a class of professional bankers in Ancient India. The history also records instances of several famous bankers like Jagat Sheth and others and the influence that they exercised in society; these indigenous bankers of India used to take deposits from people for safe custody and utilised the capital in making loans to the people who approached them for money. They were sometimes dealers of bullion and ornaments. These bankers have not disappeared from India with the introduction of banking system on an European model. They have been rendering yeoman's service to

the trading community by financing the inland trade of India.

These bankers or money lenders lend out money to the agriculturists, the artisans and the traders and earn a comparatively large amount of interest from them. They are in intimate touch with the borrowers and can easily regulate their rate of interest in accordance with the demand for credit. Inspite of the heavy rate of interest charged by these indigenous bankers the borrowers are found to approach them for loan because these bankers often lend money on personal security or on an insufficient security. The big bankers have often account with the modern banking institutions and are financed by them when they are in need of funds. The small bankers approach the big firms and have their hundis discounted and the latter firms depend on the joint-stock banks for support. In this way the indigenous bankers have come into contact with the modern banking organisation.

The Bank of Bengal was established in 1806.

The nineteenth century is a remarkable period in the history of banking development in as much as there was considerable extension of banking facilities during that time. On may 1, 1806 the Bank of Bengal opened its doors under the name of Bank of Calcutta. The name of the bank remained unaltered till 1809 when the first charter was granted to the Bank. The charter provided for the management of the bank by nine directors three of whom should be nominated by the Government to represent their own interest. The capital of the bank was increased from time to time and in 1876 when the Presidency Bank Act was passed it stood at £2,200,000 Previous to the origin of the Bank of Bengal the banking transactions were performed to a considerable extent by the Agency Houses in Calcutta. These agency houses introduced the system of issuing notes or

The Agency Houses.

cheques which were unknown to India. Such agency houses played an important part in the banking system of India till 1830 when a great commercial crisis broke out and led to the failure of a number of these firms. The failure of these agency houses accompanied with the Rajkissen Dutt forgery case prejudicially affected the financial position of the Bank of Bengal.

The Bank of Bombay and the Bank of Madras.

Two other important banks came into existence during this period. The Act III of 1840 established the Bank of Bombay and the Bank of Madras was constituted by the Act IX of 1843. The three Presidency Banks thus created were at the head of the banking organisation. They had the privilege of issuing notes till 1861 when the right was taken away by the Government. The Government was in intimate touch with these banks and had certain shares in them; but in 1876 the Government retired from their position as a share-holder and ceased to have any voice in the election of directors. The Government, however, retained certain amount of control over the affairs of the bank. As a compensation for the loss that the three banks had to suffer for the withdrawal of the pyivilege of note issue the Government agreed to keep the whole of their cash balances with the banks. The banks were authorised to use the money so deposited for banking purposes in 1866. This practice continued till 1876 when on account of the failure of the Bank of Bombay to repay the money the Government established Reserve Treasuries and began to keep only a minimum balance with the three banks. The banks were also given the privilege of managing the public debts of the Government and for this service rendered by them they were remunerated by a fixed amount of payment every year.

The connection of the Presidency banks with the Government.

Sc. 4. The Functions performed by the Presidency Banks

The Presidency Banks used to perform the

The ordinary function of bank

ordinary banking function subject to certain restriction. The ordinary banking functions are (1) deposit, (2) discount and (3) the note issue. The banks used to keep the deposit of the people and pay interest for the same. The money that accumulated in their vault was not kept idle but was utilised in purchasing securities of the Government of India and of several other Governments. They could invest their money in shares of certain Railway companies. They could lend money against securities but loans could not be granted upon the mortgage of immoveable property or against personal security. The loan could be made against promissory notes provided the latter bore the name of at least two persons. They could discount, buy or sell bills of exchange which were payable in India or Ceylon. They could not lend out money for a longer period than six months. This restriction was imposed because the banks used to utilise the money deposited with them and they were under obligation to repay the amount so deposited whenever demanded by the depositor.

How their functions were restricted.

The banks enjoyed the privilege of note issue for a period of time but this privilege was withdrawn by the Act of 1861. The notes issued by them did not circulate freely but were almost confined to the Presidency towns.

Sc. 5. The amalgamation of Presidency Banks.

How the amalgamation became necessary.

The three Presidency banks began to extend their banking transactions gradually. They had established certain intimate relation with the Government by keeping its cash-balances and by managing its public debt. In this way they came to occupy a pre-eminent position in the banking system of India. The other banks of India began to keep their accounts with the three Presidency banks; but the fear from foreign domination was not absent. It was apprehended

that the Presidency banks could not retain their proud position unless their position was strengthened by an amalgamation. At first the banks hesitated to bring about such an amalgamation but ultimately their selfish interest prompted them to come to an agreement to that effect. The boards of directors of the three Presidency banks drew out a scheme suggesting the manner in which the proposed amalgamation would be made and submitted the same to the Indian legislature. The legislature approved of the scheme and gave effect to it by passing the Imperial Bank Act of 1920. In this way the three Presidency banks became amalgamated into one Imperial Bank of India. The unified capital of the three Presidency banks was Rs. $3\frac{3}{4}$ crores. The nominal capital of the Bank was increased by the addition of authorised capital to the extent of $7\frac{1}{2}$ crores in shares of Rs. 500 each.

The Imperial Bank Act of 1920.

Administration of the imperial Bank.

The direction of the general policy of the Imperial Bank has been left in the hands of the Central Board of Governors. The Central Board consists of the following members:--

(1) Two managing Governors who are appointed by the Governor-General-in-Council on the recommendation of the Central Board.
(2) The Presidents, vice-presidents and secretaries of the local Boards.
(3) Four non-officials nominated by the Governor-General.
(4) The Controller of Currency or any other officer noninated by the Governor-General. The Controller of Currency and the secretaries of the local boards are not entitled to vote. The Central Board regulates the general policy of the Bank, fixes the bank-rate and is responsible for the weekly publication of the bank's accounts.

Besides the above Central Board there are three local Boards at Calcutta, Bombay and Madras. These Boards control the local affairs and are to be guided by the direction of the Central Board.

Sc. 6. The Government and the Imperial Bank.

he Government interference in the organisation.

The Government of India is in intimate touch with the Imperial Bank of India. The Government has supreme voice in the organisation of the Bank. The Central Board which is responsible for the formulation of the general policy of the Bank consists of two managing Governors who are appointed by the Governor-General. Again the Governor-General nominates four non-official members of the Board and the controller of currency has seat in the Central Board. The Governor-General in Council is entitled to issue instructions to the Bank with regard to any matter which in his opinion is vitally connected with the financial policy of the Government. The controller of currency who happens to be one of the members of the Central Board has authority to prevent any action being taken by the Board if he considers that the action will affect the financial policy of the Government; such action can not be taken unless the previous approval of the Governor-General has been obtained.

The Government keeps its cash balances with Bank.

The Government keeps its cash balances with the Imperial Bank and the Reserve Treasuries have been abolished from those parts of India where the Imperial Bank has opened branches. The Government has the right to determine the location of one in four of the 100 new branches which the Imperial Bank is required to establish. Since 1921 the Imperial Bank has opened 102 new branches; of these branches 61 branches have been established in places where there were Government treasuries.

The Controller of Currency approves the rate at which the Bank will undertake to transfer money between its branches for the convenience of the public. The London office of the Bank keeps the current account of the High Commissioner for India. The Imperial Bank also acts as a banker of the Government. It receives money and makes payment on behalf of the Government. The Bank also manages the public debt and for this service receives certain amount of annual payment as remuneration. The stringency of the money market is removed by the Government by issuing additional paper money under certain condition to the Imperial Bank against bills of exchange or hundis maturing within 90 days.

Sc. 7. The Functions of the Imperial Bank.

The importance of such bank.

We have seen in the preceding section that the Imperial Bank performs certain banking transactions on behalf of the Government; but its utility does not end there. It plays a great part in the banking organisation of India. It is the bankers' bank in a certain sense; almost all banks of India have their accounts with this Bank. It has established many branches throughout India and has thereby contributed to the development of Indian banking system.

The London Office of the Bank.

The three Presidency banks had not the privilege of establishing any office in London but this privilege had been conferred upon the Imperial Bank by the Bank Act of 1920. This provision is important in as much as it helps the Bank to borrow money in London to remove the stringency of Indian money market.

Restriction on the function.

The Bank however is not allowed to receive deposit in London except from the customers of the Presidency banks. The Bank is entitled to discharge the ordinary functions of joint stock banks subject to certain limitations imposed

by statutes. The restrictions may be briefly summarized thus :—

(1) It cannot make any loan for a longer period than six months.

(2) Loans can not be made on the mortgage of any immoveable property except in the case of Court of Wards.

(3) Loans can not be made upon promissory notes which do not bear the name of at least two persons or firms unconnected with each other in general partnership.

(4) It can not lend money on personal securities or on goods unless they have been placed at the disposal of the Bank.

How the Bank uses its capital.

(5) It may draw discount, buy or sell bills of exchange or other negotiable securities payable in India or in Ceylon and with the direction of the Governor-General may discount, buy, or sell bills of exchange, payable outside India, for and from or to such banks as may be approved.

The pre-eminent position of the bank.

Subject to the above restrictions the Imperial Bank will utilise the money accumulated with it in the following ways :—

(1) It can invest its funds.

(a) in stocks of a particular description in which the trustees are allowed to invest the trust fund and in certain specified sucurities of the Government of India and of the United Kingdom.

(b) in debentures issued by the District Boards, in Port Trust Bonds and in certain municipal corporation bond.

(c) in securities of certain Railways.

(2) It can lend money against each of the above kinds of securities as well as against (a) goods deposited with the Bank (b) accepted bills of exchange, (c) fully paid shares and debentures.

(3) It deals in precious metals i. e. buys and sells gold and silver.

(4) The Bank can draw bills of exchange and issue letters of credit at the request of parties whose estates are under its management.

The business of the Bank is increasing day by day. It occupies the pre-eminent position in the banking organisation of the country. It acts as bankers' bank in the sense that other banks have accounts with it. The intimate connection that the Bank has with the Government has strengthened its position with the result that the people of India have confidence in the stability of the Bank. The rates at which Imperial Bank lends money will represent the condition of the money market of India. The Bank, however, lends and accepts deposits at the lowest rate of interest. It does not pay any interest on current account.

The Balance Sheet of the Bank as published in May 1928 will give the readers an idea of the volume of its transaction.

Assets.		*Liabilities.*	
Government securities ...	21 9145000	Subscribed capital ...	11,25,00,000
Other securities ...	21801000	Capital paid up ...	5,61,50,000
Loans	15,3233000	Reserve	5,125 000
Cash credits	31,0434000	Public deposit ...	4,12,50000
Inland bills discounted ...	14,1416000	Other deposits ...	71,32,08000
Foreign bills discounted and purchased ...	4129000	Loans from the Government of India against inland bills discounted and purchased ...	9,00,00,000
Dead stock	28 479000		
Sundries	66,52000		
Balance with other Banks	33,52000	Sundries	1,29,68.000
	88,8641000		96,62,18,000
Cash	7.7577000		
	96,62,18,000		

Sc. 8. The Imperial Bank : whether it is a full-fledged Central Bank.

In almost all civilised countries we find that money market is controlled by a Central Bank. It is a bank that directs the banking policy of the country. The essential characteristics of such bank may be summarised in the following lines:—

The characteristics of a Central Bank.

(1) It has a practial monopoly of note-issue. Such a monopoly of note-issue makes it possible for the Central Bank to adjust the supply of currency in response to demand for the same.

(2) The Central Bank can by regulating the rate of discount preserve the stock of precious metal of the country.

(3) It acts as the bankers' bank and thus helps them when they are in financial difficulty.

(4) It serves as a fiscal agent of the Government, keeps its cash balances and manages its public debt.

How far they are present in the Imperial Bank of India.

Let us now see how far the above functions are performed by the Imperial Bank of India. With regard to the first characteristic viz, the monopoly of note-issue we find that the imperial Bank has not the privilege of issuing notes at all. the Presidency banks had the privilege of issuing notes before the passing of the act of 1861 but since the passing of that Act the Government of India has the monopoly of note issue. Thus we find that the Imperial Bank has not the most important characteristic of a Central Bank.

Again, the second and third functions are not regularly performed by the Imperial Bank. It can not control the money market in the same manner as the Bank of England can do. The rate at which the Imperial Bank lends money is lower than that charged by the other Banks. This shows that it does, not keep itself aloof from the ordinary banking business but competes

freely with the other banks of the country; of course it is true that the sphere of its activity has been defined by the Imperial Bank Act of 1920. It acts as bankers' bank only in this sense that many Indian banks have accounts with it and some times are helped by it when they are in difficulty.

The Imperial Bank, however, peforms the fourth function as fully as the Central Bank does. It keeps the Government cash balances and the Reserve Treasuries have been abolished from those districts where the Imperial Bank has opened its branches. It manages the public debt and performs any other banking transaction of the Government.

It is the fiscal agent of the Government.

From what has been discussed above it follows that the Imperial Bank cannot be described as a full-fledged Central Bank. Sometimes suggestions have been made for entrusting the Imperial Bank with all those functions which are performed by the Central Banks of European countries. This suggestion can be given effect to very easily in as much as the Imperial Bank already performs some of the functions of a Central Bank. The Hilton Young Commission, however, did not approve of this suggestion and pointed out that it was not safe to entrust the Imperial Bank with all the functions of a Central Bank because it was predominantly a Commercial Bank doing business in competitions with other banks. It recommended the establishment of a separate bank for performing the functions of a Central Bank.

The Imperial Bank should not be developed into Central Bank.

Sc. 8(a) Criticism of the function of the Imperial Bank.

We have seen above that the Imperial Bank cannot be described as a full-fledged central bank. As a matter of fact it is a private institu-

tion managed mainly by the Europeans. The managers generally are ignorant of the local needs of the people and fail to regulate the affairs of the bank in a manner which contributes to the development of Indian trade and industry.

Again, the superior officers of the bank are mainly non-Indians and the Indians are given little or no opportunity to occupy any post of responsibility. This bank has also been accused of showing undue sympathy to the European concerns. True it is that the Governor-General nominates four non-official members to the Central Board with a view to safe-guard the interest of the public but the public interest is not properly represented by these nominated members.

The Government of India has taken away the proud privilege of note-issue and the result is that the Imperial Bank cannot control the money market as effectively as the Central Banks of Europe.

The Government of India has to keep its cash-balances with this bank but it does not share in the profits which the bank derives from the investment of the fund. The Government however gets certain benefit in the shape of management of public debts and certain other functions which the bank discharges on behalf of the Government. There are critics who argue that the services rendered by the bank donot fully remunerate the Government and that the Government should be given a certain share in the profits of the bank.

The restriction of the functions of the Imperial Bank has meant a loss of profit which the Bank would have earned in the absence of such restriction. The Bank cannot claim the proud position of a bankers' bank because it has little control over other banking organisations of the country.

Sc. 9. The Central Bank for India :—its advantages and disadvantages.

The economic prosperity of a country is intimately connected with the existence of a Central Bank which has control over the money market. In India the want of such a bank has been keenly felt. Various attempts and agitations have been made from time to time for the establishment of a Central Bank. The first proposal for the establishment of a Central Bank in India was made before 1860. This is evident from the speech which in 1859 Mr. Wilson delivered in introducing the bill for the establishment of a paper Currency Office in India. Next proposal came in 1867 when on account of the failure of the old Bank of Bombay a scheme was submitted to the Government of India for the amalgamation of the Presidency Banks into a Central Bank for all-India. The next proposal for the establishment of such bank was submitted to the Government by a member of the Fowler Committee; but the Government did not approve of the recommendation and in consequence did not give effect to the same.

The utility of a central Bank.

The question of the establishment of a Central Bank in India was fully discussed by the Chamberlain Commission to which a memorandum was submitted by Mr. Keynes and Sir Earnest Cable. The Chamberlain Commission recommended the appointment of a body of select experts to consider this question. But as the war broke out at that time no step was taken by the Government in this direction till the year 1920 when an Act for the amalgamation of the Presidency Banks was passed.

The advantages that will follow from the establishment of a Central Bank in India may be summarized thus:—

(a) The creation of a Central Bank in India

and the transfer of the Government balances to it will make the Secretary of State, to a great extent free from the criticism and cross-examination to which he is now exposed for management of Indian finances. He will then be held responsible only for important matters concerning financial policy while the Central Bank will be responsible for minor matters.

The Govt will be free from criticism.

(*b*) The stringency created in the money market by the withdrawal of money will be removed if the Central Bank is created and is allowed to manage the balances of the Government.

(*c*) The objections to the keeping of large funds in the London money market are avoided.

(*d*) The Central Bank will be in a position to manage the currency system in the best possible way, provided its authority to do so is not unduly restricted. The Central Bank is expected to know the demands for currency and will therefore be able to expand it in the interst of the country. Moreover, a Central Bank has greater opportunites for pushing the circulation of notes and for popularizing them by an increase in the facilities available for convertibility.

The currency system will be elastic.

(*e*) The present wide fluctuation of the Bank rate will be moderated. This will be done by the removal of the stringency of the money market through the transfer of balances of the Government to the Central Bank and by allowing the Central Bank to have an office in London money market.

(*f*) The increase of branches will lead to the increase of banking facilities in many parts of India and to the growth of a habit of making investment.

(*g*) The remittance transaction can be handed over to the Central Bank and the Secretary of State for India will be relieved of much trouble

and criticism on that account. Many objections have been raised against this proposal. It has been argued that such a transfer will be injurious to the interest of the existing exchange Banks. In order to avoid this criticism Mr. Keynes has, in his plan restricted the action of the Central Bank only to the purchase of the sterling bills bearing the endorsement of another bank. If the action of the Central Bank is so restricted we find no ground on which the transfer of remittance business can be objected.

(*h*) The transfer of remittance transaction will produce many other advantages. First, the trade will be financed in a more direct way than at present. The proceeds of the sale of council bills are generally lent to the London money market until they are wanted by the Secretary of State with a view to finance the Indian trade by re-discounting the bills of exchange only indirectly. But if the Central Bank takes, as proposed, upon itself the rediscounting business and holds the bills until money is actually wanted by the Secretary of State the whole of the floating resources will be directly employed in the assistance of India's foreign trade instead of assisting it in a very slight and indirect way through the general help given to the London money-market.

The remittance transactions will be made over to the Bank with an advantage.

Secondly, the floating sterling resources will earn higher rate of interest than at present "partly through the elimination of an intermediate profit and risk and partly because three months bill can be taken in many cases in which money is now lent for only six weeks."

(*i*) The Central Bank will be of great help to the Exchange Banks as it will take upon itself the function of rediscounting foreign bills. It will contribute greatly to the development of co-operative and industrial banks by rediscounting the agricultural and industrial paper presented to it.

The exchange banks will not suffer.

It will be bankers' bank.

(*j*) The Central Bank will act as 'bankers' bank. It will become the last resort on which the other banks can fall back in times of difficulty. This action on the part of the Central Bank will, to a great extent, remove the banking crises which, as we find, are often due to the failure of one or two banks.

(*k*) The Central Bank of India would be able to preserve the stock of gold by raising the rate of discount and in this way would facilitate the introduction gold standard in India.

Several arguments have been advanced against the establishment of a Central Bank in India; but these arguments are superficial in character and are based upon conservatism and local prejudices. A brief account of these objections is given below:—

Notes of the bank will not be readily accepted.

(1) The notes issued by the Central Bank will not be accepted by the people without hesitation because the public cannot place as much confidence in the stability of the Bank as in the stability of the Government. This opinion is not sound in as much as we find that notes issued by the central banks of other countries have found ready acceptance.

(2) What India requires at present is a body of laws regulating the banking system of the country; of course, we do not deny the utility of such laws but the establishment of a Central Bank is urgently necessary in order that a general control over the banking organisation may be possible.

(3) The several provinces will quarrel with one another and each will demand the Central Bank to be localised in its own area; but this is immaterial and can not reduce the importance of a Central Bank.

(4) The interest of exchange bank will be

affected but this evil can be avoided by restricting the action of the Central Bank to the re-discounting operation.

Sc. 10. The Reserve Bank of India.

The Hilton Young Commission which was appointed to make recommendation for remedying the defects inherent in the currency system of India found out that the root cause of the currency difficulties was the separation of currency from credit. The management of currency lay in the hands of the Government while the Imperial Bank was partially responsible for the banking reserves of the country. The Committee, therefore, suggested a unification of control over credit and currency by the establishment of a Central Bank. It also recommended a peculiar currency system which was termed as Gold Bullion standard. It was of opinion that the Gold bullion standard properly controlled by the Central Bank would give India a monetary system which would suit Indian conditions and satisfy the demand of the people.

The proposal of a new Central Bank.

The establishment of the central Bank known as the Reserve Bank of India would secure for India an autonomy in currency affairs and thereby would facilitate the attainment of political autonomy in the near future. In introducing the Reserve Bank Bill Sir Basil Blackett spoke highly of the scheme submitted by the Commission in the following manner:—"It will assist that gradual and silent revolution in India's economic life which promises to bring higher opportunities of life and high standards of living to every one in the country ... . India will move forward towards that financial and economic development with the granting of additional financial and banking facilities for Indian agriculture, Indian commerce and Indian industry which has been the theme and object

The advantages that such bank will bring to India.

of one Commission and Committee after another. We shall see the development of a discount market and an acceptance business of increased facilities for the marketing of produce and, in short, a gradual mobilisation of India's immense potential capital for the development of India's own resources."

The functions of such Reserve Bank.

To the proposed Reserve Bank of India the Government of India would make over the remittance business and the function of the issuing notes. The Government would refrain from controlling the currency system of India and entire responsibility would be thrown upon the Reserve Bank of India. The Reserve Bank would amalgamate the two reserves—the paper currency and the Gold standard reserves—into one reserve and this unification of the two reserves would strengthen the position of the Bank. The Bank should be given control over the banking organisation by making it obligatory on the other banks in India to keep with the Reserve Bank 7½ per cent of their demand liabilities and 2½ per cent of their time liabilities. The banks would be helped greatly by the re-discounting facilities that the Reserve Bank would confer upon them. The Reserve Bank would not be allowed to compete with the commercial banks and its transactions would be strictly regulated by statutes. It would be entrusted with the keeping of Government cash balances and the management of public debt.

Se. 10 (a). The Constitution of Reserve Bank.

The Hilton Young Commission did not think it desirable to turn the Imperial Bank of India into a Central Bank and recommended the establishment of a new bank for that purpose. Difficulties arose with regard to the constitution of such a bank. The Commission proposed a constitution on the same line as that of the Imperial

Bank and at the sametime opined that the members of the Central and Provincial Legislative and Executive councils should not be Presidents and Vice-Presidents of the local board and should not be nominated members of the central board. Accordingly a bill proposing a share-holders bank with a commercial directorate was introduced in the Indian Legistature and was referred to a Select Committee. The majority of the Select Committee seriously objected to a share-holders' bank on the following main grounds:—(i) That the bank would be dominated by foreign capitalists who would always try to get more dividend to the prejudice of the interest of the country; (ii) That the bank should be made responsible to the Legislature, (iii) That a State Bank is preferred to a share-holders' bank because people of India are not expected to have confidence in the latter bank; (iv) That a reserve bank need not accumulate a large capital because its functions should be protective and not competitive. With regard to the constitution of the Reserve Bank the majority of the Select Committee proposed a board consisting of fifteen Governors and one officer with a majority of Indian elected members. The Finance member could not agree with the proposal and announced that he did not want to proceed with the bill during the session. In 1928 the Government of India published another bill which provided for a share-holders' bank but the President of the Assembly could not allow the introduction of such bill unless the previous bill had been formally withdrawn. The Finance Member fell back upon the old bill of 1927 but as the bill evoked serious opposition the bill was postponed sine die.

Sc. 11. The Bank rate and the Hundi rate.

In the money market of India we come across with two rates viz. the Bank rate and the Hundi

The difference between the Bank rate and the Hundi rate.

rate. The Bank rate means the rate at which the demand loans or day to day loans will be made by the Imperial Bank on the security of Government Paper. The Bank rate does not remain constant but varies with the demand and supply of currency. The Imperial Bank announces its Bank rate from time to time and this rate prevails throughout India. During the busy seasons when the demand for currency increases either for financing the export-trade of the country or for financing the industries of the country the rate increases. The average Bank rate fluctuates from 5 to 8 per cent. The rate charged by the Bank when lending money on securities other than the Government securities is slightly higher than the Bank rate. This is due to the fact that the Government securities are more sound in character than any other kind of security.

The relation between the two rates.

The Hundi rate means the rate at which the shroff discounts hundis in the Bazar. This shroff renders a great service to the community by financing the inland trade of the country This hundi rate is generally higher than the Bank rate in as much as the former represents the rate of discount and latter is a rate for day to day loans. There is an intimate relation between the two rates and this is shown by the fact that when the Bank rate rises during the busy seasons the hundi rate also takes an upward course. Sometimes however the hundi rate is lower than the Bank rate. This happens when the Imperial Bank fixes a prohibition rate with a view to consolidate its reserve.

Sc. 12. The Government itself is a great banker.

The Government of India has been described as a great Banker. Let us see how far this statement is correct. The banking functions

are generally of three kinds:—(1) the deposit, (2) discount and (3) note-issue. The Government of India performs the deposit function to a considerable extent. It has opened a Savings Bank Department in the Post Offices. The chief function of the department consists in keeping deposits of the people and paying a rate of interest on such deposits. The Government does not keep any special reserve against the deposit. This deposit function as performed by the Government is exactly similar to that performed by ordinary banks.

The banking functions performed by the Govt.

The Government in opening Savings Bank Department does not affect the interest of other banking institutions in as much as it pays a lower rate of interest and has fixed the maximum amount of annual deposit. The habit of investment has no doubt been stimulated by the opening of such banking department but the number of postal savings banks is too insufficient to produce satisfactory result. The Government has provided for the investment of money in another way viz. by the issue of cash certificates. The amount invested in such certificates was about Rs. 35 crores in 1929-30.

The discounting function represents the lending operations of the bank. The Government of India has made some arrangement for the granting of Takavi loans to the agriculturists and has been stimulating the growth of Co-operative Credit Societies, with a view to liberate the agriculturists from the usurer's yoke. This activity of the Government can properly represent the lending operation of the Government.

The monopoly of note issue.

The Government of India has the monopoly of note-issue. The banking function is performed in European countries by the Central Bank. In India the Presidency Banks had the privilege of the note-issue but the Government

be exaggerated. An Indian exporter is not to wait for three months for the realisation of the price of the articles he has exported but can get his money by selling his bill of exchange to an Exchange Bank doing business in India.

The Exchange Banks also participate in the ordinary banking transactions of India. The share-holders of these banks are generally foreigners but their funds are augmented by means of deposits made by the Indians with them. They have branches in different parts of India and finance the internal trade of the country to a considerable extent. In this way they compete with the ordinary joint-stock banks of India.

How the funds are augmented.

The exchange banks will be benefited by the establishment of Reserve Bank of India in as much as it will offer facilities for the re-discounting of external bills of exchange. But this advantage will be taken recourse to by the exchange banks only when the Central Bank rate of re-discounting is lower than the discount rate in London. If the rate of discount is lower in London the exchange banks will certainly send the bills of exchange discounted by them to London and sell them in London market.

The supreme position which the foreign banks occupy on account of the large amount of capital at their disposal has evoked serious criticism. It has been argued that the Indian banking institutions can not freely compete with the foreign banks which are usurping some of the functions of joint-stock banks. Various suggestions have been submitted to the central Banking Enquiry committee for regulating the affairs of the exchange banks and restricting their functions.

Sc 15. TheJoint-Stock Banks : Their functions.

Next in importance to Exchange Banks are the joint-stock banks. These are banks that are engaged in financing the internal trade of the

country. There are various other functions which are performed by such banks. They foster the habit of investment by giving an opportunity to the Indians to keep their deposits with them. With a view to increase the deposit they will sometimes pay interest on current deposit and higher interest on fixed deposits. The fund so accumulated is utilised by them in discounting internal bills of exchange. They will sometimes favour their customers with an overdraft when they are urgently in need of money for business purposes. They undertake the task of purchasing and selling securities on behalf of their customers. They facilitate the transfer of funds from one part of India to another part.

The various functions of joint-stock banks.

The Balance Sheet of a Joint-stock Bank will give the students some idea of the nature of its transaction.

Liabilities

Share capital		
(a) authorised ...		1,00,00,000
(b) subscribed ..		80,00,000
Capital paid up ..		40,00,000
Reserve fund ...		18,00,000
Deposit on current account ...		2,47,14788
Fixed Deposit ...		1,84,23561
Bills payable ...		89,414
Bills receivable as per contra (on account of customers' acceptance		24,1583
8 Profit and loss account brought forward from last year	432142	
Add profit of 1919	1141573	
	15.73,715	
Deduct interim Divedend at 10 per cent. paid for half year	200000	13,73,715
		50,643061

Assets.

		Rs.
Reserve		
(a) Cash in hand	5107418	
(b) Cash at bankers and loans at call and short notice	32,15,469	
(c) Government and other securities (at or under market rate)	72,45153	1,55,68040
Bills discounted and purchased		163,40,511
(3) Loans and advances		183,21,446
(4) Bills receivable liability of customers for bank acceptances ...		2,41,583
Bank premises and furniture		1,71,841
		5,06,43,061

Sc. 16 The growth of Joint-stock banking.

The agency houses formerly performed banking transactions

The economic prosperity of India is intimately connected with the development of joint stock banking; but the number of such banks is too insufficient to meet the demands for credit in a vast country like India. Formerly the banking transactions were carried on by agency houses. Afterwards the three Presidency banks came into existence and contributed to the development of banking system of the country to a considerable extent. Several other joint-stock banks e. g. the Bank of Hindustan, the Benares Bank, made their appearance but had to close their doors on account of unsound management. There has been considerable development in joint-stock banking in recent years. In 1906 several joint-stock banks were established of which the Bengal National Bank and the Bank of India were important. These Banks acquired prominence within a short time because the Swadeshi movement increased the number of supporters. It is to be noted in this connection that though the number of banks registered as such under the Indian Companies Act is large yet the number of firms which really carry on banking transaction is very small. The aggregate amount of paid-up capital of these banking institutions do not exceed Rs. 12 crores. The most important of these banks is the Allahabad Bank which was established in 1865 and has been carrying on business since then.

The number of real banks was very small.

Sc. 17. The Bank failures.

Causes of Bank failure,

India has the misfortune of witnessing, failure of many banks. The failure has been mainly due to the unsound management of banking business The banks can not be successfully managed unless the managers have experience in the banking business. Often we find that managers of Indian banks have little or no experience in the business

which they are to control. The fraudulent dealing and misappropriation on the part of the directors have sometimes brought about the failure of banks. The directors sometimes misrepresent their balance sheet and declare high dividends with a view to attract customers. This unwise policy of the directors has sometimes been responsible for the liquidation of many banks. Again, the failure of one bank often precipitates the fall of another bank because of the loss of confidence that the former causes. An experienced bank-manager will never advance large part of its capital to one company: because if that company becomes insolvent the entire money so advanced is lost. The inefficient managers of Indian Banks do not often care to follow this important principle and the result is the failure of the banks which have been placed under them. We all know that the failure of the Alliance Bank of Simla was due to the enormous advances that were made to a particular company, Messrs. Boulton Brothers of London. Again, sometimes failure of banks has been due to the keeping of insufficient reserves against their liabilities. In India many banks failed because they did not keep sufficient reserve against their liability. The important banks that failed in India were—(1) The People's Bank (in the Panjab), (2) The Credit Bank of India, (3) The Bank of Upper India. In 1914, 43 banks had to suspend their banking operation. In 1919-20 the number of banks that failed was 7 and in 1923 there were as many as 20 bank failures. As a remedy against the constant failure of banking institutions what we can suggest is the establishment of a Central Bank which will have a general control over the banking organisation and at the same time will render assistance to the banks that are in a precarious position. Several other suggestions that have been made in this connection may be briefly stated thus :—(a) Regular publication of

Some important Bank failures.

bank's accounts. (b) Restriction as to the amount of loan to be made to a particular individual or company. (c) Prohibition of loans to the directors or other employees of the bank. (d) Examination of bank's account by independent auditors.

Sc. 18. The Industrial Banking.

What Banks can finance industries.

One of the causes of backwardness of Indian industries is the want of sufficient amount of capital. The industries cannot prosper in modern times unless there is sufficient amount of capital which can be invested in up-to-date machineries. The ordinary joint-stock banks cannot afford to finance the industries of India because their capital is mainly derived from deposits which can be withdrawn by the depositor whenever they like. This leads to the necessity of a separate kind of banking organisation. The main business of such banks will be to finance the industries of the country. They should attract long-term deposits and invest the capital in industries that have prospect for success. The managers of such banks should be experts in industries because unless they are experienced men of business they will not be in a position to invest the bank's capital in a prudent manner.

The absence of industrial banking.

The industrial success of European countries has been promoted by the existence of industrial banks. In India the industrial banking has been conspicuous by its absence. The only industrial bank that came into existence in India was the Tata Industrial Bank but it could not finance the industries successfully for a long period of time. It had to discontinue its function of financing industries and became ultimately amalgamated with the Central Bank of India. The industrial commission emphasised the importance of such banking institution and recommended the establishment of such banks with large share capital and long term deposits.

Sc. 19. The Development of Industrial banking in other countries.

It is interesting to note the remarkable progress that has been made by the industrial banks of other countries and the important part that they have played in developing the industries. In Germany the ordinary commercial banks have contributed greatly to the development of industries by providing them with necessary funds. The German banks are largely responsible for the Empire having fostered and built up its industries while the primary purpose of English banks seems to be to secure large earnings for their share-holders. In England the financing of industries has been undertaken by the British Trade Corporation which is precluded from competing with the ordinary joint-stock banks in their ordinary business. Japan owes its industrial success in a great measure to the assistance that has been rendered by the industrial Bank of Japan. The business of the bank is under the direct control of the Government which appoints the Governor and the Deputy-Governor. In India there is very little of industrial banking at present. The only industrial Bank that is carrying on considerable business is the Mysore Industrial Bank. This bank has helped the development of the industries of the particular state. The Industrial Commission remarked that the condition of Indian industries cannot be improved unless adequate arrangement has been made for financing the industries. The Commission recommended that the Government should appoint an expert Commitee to deal with the subject of industrial banking. In the meantime an obligation was cast upon the Government to make provision for financing the middle class industrialists by guaranteeing the repayment of money lent out to them by the banks.

How far the industrial success of foreigners depends upon industrial banks.

Sc. 20 How to Develop Industrial banking.

What steps should be taken in developing the industrial banking.

A new type of bank should be created in India in order to foster the growth of industries. Such a bank will have to invest money in industries and must for that reason accumulate large amount of capital. The capital of the bank may be augmented by the deposits but the bank should always take care to keep long-term deposits because the investment in industries means the locking up of the capital for a long period of time. The Government of the country should not remain quite indifferent but help the development of such banks by contributing certain amount of funds to them. The management of such banks should be left in the hands of industrial experts so that the capital of the banks may be properly utilised in financing those industries which are on a sound footing. The managers should always study carefully the conditions of an industry before they agree to finance the same. Again, care should be taken so as not to lock up a large part of their capital in one particular industry because if that industry fails the entire money invested in it will be lost.

The industrial bank should be properly represented on the directorate of concerns which they undertake to finance. They should carefully study the conditions of industries before granting loans. When they are satisfied as to the condition of the industry they can help its development in the following ways:—(i) granting loans, (ii) guaranteeing the debentures issued by industrial firms (iii) Underwriting a part or whole of the share capital.

Sc. 21. The Co-operative banking.

The Co-operative banking organisation owes its origin to the Co-operative Credit Societies Act which was passed in 1904. Within a short

time it was found that the provisions of the Act could not fully meet the growing demand for co-operative credit. Hence the Act of 1904 was followed by Act II of 1912. The latter act provided for the formation of Central Banks by means of a Union of Primary Societies. These Banks should exist for performing the following functions—(a) Attracting deposits from money lenders and professional classes (b) Lending money to the primary societies, (c) Taking away the excess fund of a society and utilising it for making up the deficiency of others, (d) Supervising and guiding the actions of affiliated societies. The Government has stimulated the development of co-operative banking in four ways—(1) by granting initial advances to new societies, (2) by conferring upon the members certain privileges, (3) by making special advances to meet financial difficulties of such banks, and (4) by guaranteeing the interest on debentures. The Central Banks have been financing the primary societies successfully. The number of such banks is increasing every year. In 1925-26 there were as many as 558 Central Banks.

The functions performed by co-operative banking organisation.

The Maclagan Commitee recommended the creation of a co-operative institution at the head of each province. Such an institution has been established almost in every province and is technically termed as Provincial Bank. These banks are helping the progress of co-operative societies by providing them with funds through the intervention of Central Banks. They occupy the premier position in the co-operative banking system and direct the policy to be followed by the Central Banks in financing the primary societies. The Central Banks cannot be expected to use their capital economically and efficiently unless they are controlled by a Provincial Bank.

The provincial banks and their utility.

The existence of such a Provincial Bank is but a step to the All-India organisation of co-

The project of creating an All-India institutions.

operative societies. The creation of a All-India institution will be conducive to the interest of the country in as much as it will facilitate the adjustment of capital through the medium of the Provincial Banks. A provincial bank having a stock of surplus capital will be in a position to deposit the same in that All-India institution and the latter will utilise the fund so deposited in making up the deficiency of other provincial banks. The utility of an international co-operative bank was fully discussed in the International Conference that met at Stockholm in 1927.

Mr. J. Cotman, Director of Public Information makes the following remarks in connection with the development of Co-operative banking in India; "on the purely credit side, the working of the year (1926-27) fully proved that development of co-operative banking and the linking up of the financing of agriculture with that of trade and commerce will be of incalculable benefit to the country, as it will undoubtedly save much of the waste attendant upon the use of cash. Considerable advance was made during the year in getting co-operative banks to recognise the need for distinguishing between short-term and long-term loans, a distinction which corresponds to a real distinction in the needs of members. By maintaining an effective watch over the proper use of loans and their repayments and by helping to keep a major portion of the assets of the societies in a fluid state this distinction will undoubtedly assist the movement to come into closer touch with the money market. The need for land mortgage banks for the redemption of old debts is now being felt and a start in this direction is being made by the establishment of a bank in the Rajshahi district."

Sc. 22. Clearing Houses.

The system of 'Clearing Houses' plays an

important part in the present day organisation of banking concerns. It is a machinery by which the claims and counter-claims of the member banks are adjusted and the surplus claims are settled by cheques upon or book entries in a premier bank with which all other banks have account. In this way the use of cash for the adjustment of claims is avoided. In India clearing house have been established in almost all the principal towns viz. Calcutta, Madras, Bombay, Karachi and Rangoon. The Imperial Bank of India serves as the Banker's bank because almost all other banks keep a certain part of reserves in this bank. The system of clearing house is a happy sign of the growth of trade and banking and of the increased use of cheques as a media of exchange. It has been suggested that the system will attain considerable development if efforts are made to force an association of clearing banks. The use of cheques can be stimulated if the Government accepts cheques in payment of revenue and taxes.

Questions and Answers.

1. Describe the various types of Banks that exist in India.—The Government of India itself is a great banker, comment. (C. U. 1925.—See Sec. 12.)

2. Describe the Indian banking system. (C. U. 1927.—See Secs. 5, 14, 15.)

3. What is the position of the provincial Co-operative Banks in the Co-operative organisation of India? Is it necessary to create an All-India institution to finance the provincial Banks? (C. U. 1928.—See Sec. 21.)

4. Explain the position of Exchange Banks in the import and export trade of India. How will they be affected by the creation of the Reserve Bank? (C. U. 1928.—See Sec. 14.)

5. How do you account for the undeveloped state of industrial banking in India. What are the conditions under which the success of the Industrial Banks can be ensured? It is possible to create those conditions in India? (C. U. 1928.—See Secs. 18 and 20.)

6. Show that credit is an indispensable factor in modern business. (See Sec. 1.)

7. Give an account of the amalgamation of three Presidency Banks into an Imperial Bank of India. (See Sec. 5).

8. Discuss the relation that the Government has with the Imperial Bank. (See Sec. 6).

9. Do you say that a Central Bank for India is desirable? In what ways would it be an advantage to India. (C. U. 1929.—See Sec. 9.)

10. Trace the history of the amalgamation of the Presidency Banks into the Imperial Bank of India. What do you think have been the advantages of such amalgamation. (C. U. 1930.—See Sec. 5.)

CHAPTER XVI

PRICES.

Sc. 1. Prices : its relation with money.

The price of a commodity is always measured in terms of money. In this respect it differs from value, ordinarily we will use the two terms, value and price in the same sense but in the economic science each is used in a definite sense. Value of a commodity represents the quantity of other commodities which can be obtained in exchange for the former commodity. The price of a commodity is the quantity of money which is needed to purchase that commodity. There may be a general rise or fall in prices. If there is a large supply of money materials the purchasing power of money will fall with the result that the prices of commodities will rise; similarly if there is a diminution in the supply of money the purchasing power of money will increase and the inevitable result will be a fall in the price. This general statement with regard to the relation that exists between money and price will hold good subject however to certain qualifications. These limitations may be included within the expression "other things being equal." This expression means that the following conditions must be satisfied :—

Price means the quantity of money needed to purchase a commodity.

The conditions under which the quantity theory holds good.

(1) The volume of trade which represents the demand for money must remain the same.

(2) The amount of exchange work done by barter must also remain the same.

(3) The amount of credit transactions i. e. the transactions that do not require the help of money materials will maintain the same position.

(4) The velocity of circulation or the number of exchange transactions done by each unit of money must remain the same.

If all the above conditions are satisfied the value of money will rise or fall in response to the decrease or increase in the supply of money. But in no country can all the above conditions be satisfied. In India also where the system of credit has not reached the developed stage the quantity theory of money in its bald and unqualified form has no application. This is proved by the Index Numbers. Between the year 1894 and the year 1912 the money in circulation increased by 64 per cent. but the price of articles did not increase in the same proportion. Similarly, the fall in price is not proportionate to the deflation caused in the currency in circulation.

Sc. 2. How the fluctuation in prices is to be measured.

The price of commodities never remains in the same level. It will be subject to fluctuation. Sometimes it will fluctuate very rapidly and such rapid fluctuation is prejudicial to the trade and industry of the country. This fluctuation is often caused by the inflation or deflation of currency. Again, the price of every commodity does not move in the same direction. This shows that prices are influenced by various other factors. To whatever causes this fluctuation may be due the effect of fluctuation will always be the same.

The utility of measuring prices.

Now the difficulty arises in measuring the fluctuation of prices. Often it becomes necessary to determine the position of price level. Thus when the question of stabilisation of the Indian Exchange is before us for solution we cannot proceed unless we know the state of prices. The exchange rate must be stablished with reference to the prices of commodities. If the prices of

commodities have not adjusted themselves to the proposed exchange rate the adoption of that rate will produce serious consequences. The measurement of prices is also important for other reasons. It is by comparing the level of prices of representative commodities in a particular year with that of another year that we can determine whether there has been any change in the material condition of people.

How the Index Numbers are to be constructed.

The measurement of price is possible by means of Index Numbers. The chief points in the construction of an Index Numbers are the following:—

(1) The selection of a standard or basic period. We must start with a period of time which can be regarded as the normal period. The prices of commodities during the time will represent the normal price.

(2) The next step is to select commodities. The selection of commodities will depend upon the particular purposes which the Index Numbers of price are intended to serve. If our object is to compare the relative position of the labourers in two different periods we should take into consideration those commodities alone which enter into their family budget.

(3) Next comes the collection of prices. Here we have to collect the prices of the representative commodities. Now the question arises as to whether we should take into account the wholesale or retail prices. If our object is to show the change in the cost of living of any particular class of people we should collect the retail prices. The prices of the commodities in the basic period are to be stated in one column and the prices of the same commodities in the period under consideration are to be stated as ratios of the former prices.

(4) The next step is to take the average of

the prices of the commodities in each period. The arithmetical average is generally taken because it can be easily calculated.

Sc. 3. The causes of rise in prices.

The prices of commodities may be influenced by various factors. When prices of commodities rise the value of money is said to have depreciated. This depreciation in the value of money may be caused by the following causes viz:—

Insufficient supply of commodities.

(1) The depreciation may be quite unconnected with the supply of money. If the stock of money to be used for exchange purposes remains the same the rise in prices may be due to the diminution in the supply of commodities. Whenever the supply of commodities is not sufficient to meet the total demands for commodities the prices of those commodities will rise.

Inflation of currency.

(2) The rise in prices is often brought about by the inflation of currency. If a country has a managed system of currency the rise in price will frequently take place because the authority entrusted with the management of currency fails to adjust the supply of currency to meet the demand for currency. In India the rise in prices is very often occasioned by this want of adjustment.

Inflation of credit.

(3) The depreciation of money or the rise in prices may be due to the inflation of credit instruments. If there is an increase in the use of credit the prices of commodities will be affected. Although credit does not influence price in the same sense and to the same extent as money does still it cannot be denied that it has some influence upon prices.

4) The rise in prices may sometimes be caused by an increase in the rapidity of circulation of money. This rapidity is often due to the increased facilities of banking. The development of credit system which is occasioned by the

infusion of banking facilities is mainly responsible for the recent rise in prices.

Sc. 4. India and rise in prices.

In India prices of commodities have been influenced both by internal and external causes. In these days of international trade the Indian prices cannot but respond ultimately to the rise in world prices. If the price of wheat increases very much in London the price of wheat in India cannot remain unaffected. The exporters will think it profitable to export wheat to London and in consequence the demand for wheat in the Indian market will increase. This increase in the demand for wheat must have its effect upon the prices. In this manner rise in world-prices will influence the Indian price level to a considerable extent.

Price is influenced both by internal and external causes.

In recent times there has been a rise in the world price. The causes that are responsible for such rise in prices may be summarized in the following lines :—

The rise in world prices and its causes.

(1) The demand for commodities has increased very much on account of the rise in the standard of living. The materialistic ideal is acquiring prominence with the advancement of civilisation and simplicity in the matter of dress is giving place to pomp and grandeur.

(2) The destruction of commodities caused by wars and the direction of human efforts to unproductive purposes are also important causes of the rise in world prices.

(3) The increased supply of gold which is used for monetary purposes is another cause of the rise in prices. If the supply of money materials increases the value of money which indicates its purchasing power will fall with the result that the prices of commodities will rise.

Increase in the supply of gold.

(4) Another important cause of the recent rise in world prices is the development of credit

The growth of the credit system.

system. In western countries the deposit banking system has made considerable progress and exchange transactions are carried on through the medium of credit instruments. In these countries credit plays a more important part than money.

The rise in world prices which has been brought about by the factors mentioned above has influenced the Indian price level to a considerable extent. Besides these external causes there are certain causes which have been responsible for the recent rise in Indian prices. Let us have a brief summary of these internal causes:—

The growth of population.

(1) The population of India is increasing faster than the food supply. The supply of food stuff cannot keep pace with the increasing population and the result is a rise in price of food stuff. The Malthusian doctrine of population is operating vehemently in India. Although in these days of international communication the problem of population is not of mere size but of efficient production and equitable distribution, yet India has not been in position to take recourse to the above two remedies viz. (a) efficient production and (b) equitable distribution, in order to counteract the evil effects of an increasing population.

With the growth of population India has been forced to cultivate inferior land which yields lower returns.

Export of food grains from India

(2) Again, the inadequate supply of food-stuff in India has been considerably reduced by the heavy exports of food-grains every year. The rise in the standard of living has necessitated an increased consumption of manufactured goods and India has to export food grains in large quantities in exchange for the foreign articles that she imports. The supply of food grains has for this reason fallen greatly and the inevitable consequence of this diminution in the supply of food-stuff can be easily imagined.

(3) Again, the rise in the price of food stuff has been due to the replacement of food crops by commercial crops. In India we find that the agriculturists are trying to increase the production of jute and other commercial crops because the prices of these commodities are high in the foreign market. This change of policy has been responsible for a considerable reduction in the output of food grain.

Replacement of food crops by commercial crops.

(4) The rise in prices has been occasioned by the failure of crops which takes place very frequently in India. The agricultural industry of India has to depend upon nature for the supply of water. The crops are very much affected by the want of rain-fall or by the unseasonal rainfall. This almost absolute dependence upon nature for the supply of water often leads to the outbreak of famine and excessive rise in the prices of food stuff.

The failure of rains.

(5) The prices of commodities have been raised by the inflation of currency and by the infusion of banking facilities. The Government of India has the sole charge of controlling the currency system of the country and has sometimes increased the supply of currency in response to the external volume of trade; but we all know that the external volume of trade does not correctly represent the nature of the entire volume of trade. In this way the Government will expand the currency in criculation although such an expansion is not demanded by the volume of trade. This influence of currency upon prices will continue so long as this managed currency system is retained by India. Again, the considerable progress that the defective credit system of India has made recently has contributed to the rise in prices to some extent.

The development of credit system.

(6) The imposition of protective duties upon certain commodities with the object of protecting the infant industries of the country has led to the

The imposition of protective duties has influenced prices.

rise in prices of those commodities. We do not oppose the imposition of such duties but are referring to the effect that such imposition will have upon the price level. The object of imposing protective duty is a noble one but the consumers have to make some temporary sacrifice so that premanent benefit may follow.

(7) The modern system of combative advertisement increases the cost of production and thereby causes a rise in prices.

The facility of communication and its effect upon prices.

(8) The development of communication has some effect upon the price level of the country. If the means of communication are developed so as to extend the market for commodities there will be equalization of prices throughout the whole economic market. The demand for the commodity will increase as the market is extended and the price of the commodity will rise. Sometimes the development of communication and the lowering of the cost of transport will have the opposite effect. This happens when by virtue of the development of communication India is linked up with another country which has better advantages in producing certain commodities which India requires in large quantities. In such cases India will cease to produce those commodities which can be supplied by another country at a cheaper price. Whatever may be the ultimate effect of such an economic dependence there will be temporary gain in as much as the consumers will get the commodities at a cheaper price.

Sc. 5. An estimate of the rise in prices.

The causes of the rise in pre-war price-level.

In this section we shall divide our study of Indian price-level into three well-defined parts viz—(a) The price-level before the war, (b) the price-level during the war and (c) the price-level after the war. In the pre-war period there was

a considerable rise in the price-level in India. If we take the year 1873 as the basic period we will find that the price-level rose to the extent of 43 per cent. in 1913. The causes that were responsible for the rise in prices during that time were both external and internal in character. The external causes were, as enumerated by Mr. K. L. Dutt, two in number viz.—(1) increased supply of gold for currency purposes, (2) the destructive effect of wars which had been taking place since 1898. We have discussed in the preceding section how war reduces the supply of commodities and thereby raises their prices. Mr. Dutt referred to four kinds of internal causes. These were—(a) the development of credit system which increased the media of exchange (b) the improvement in the facilities of transport which has always the effect of widening the market for commodities, (c) the substitution of food crops by non-food crops and (d) increase in the exportation of food-stuffs from Indi which reduced the supply in India. Mr. Duta however, seems to ignore the influence thatt, the managed currency of India had exercised during that time on the price-level of the country.

The causes of rise in prices during the war time.

During the war period the prices of commodities rose very high. This was due to the abnormal increase of demand during that time. The belligerent countries had to depend greatly upon India for the supply of articles that were necessary for subsistence as well as for military purposes. India had to increase her export of the articles and in consequence, the price of these commodities began to rise. Again, the prices of commodities that India used to import in those days also increased because the supply of those was appreciably reduced in the exporting country. People were engaged in warfare and could not produce industrial commodities

in sufficient quantity. Another cause of high price during the war period was the redundant supply of currency in circulation—a supply that was the outcome of an inflationary policy adopted by the Government.

The causes of rise in the post-war period.

Immediately after the war was over the price-level of India began to rise still further. This rise was occasioned by three important causes; first, the war caused heavy destruction of commodities and therefore the supply could not adjust itself to the demand for commodities. Secondly, the demand for commodities by the army continued till demobilization could be effected. Thirdly, Government of every country inflated the currency still further with the result that value of money fell considerably. The prices continued at the high level till 1922 when they began to take a downward course. This fall was due to the following causes.

The indices of wholesale prices of different countries are given below:—

	U. S. A. 1913=100	U. K. 1913=100		Calcutta 31st July, 1914=100	
	Gold	Sterling.	Gold.	Rupee.	Gold.
July, 1922	155	160	146	181	103
June, 1924	145	163	145	176	165
August, 1924	150	165	153	180	[illegible]
June, 1925	157	158	158	157	177
February, 1926	155	149	149	158	180

Sc. 6. The effect of change in prices on the economic condition of the people.

The rise in the prices of commodities affects the different sections of the community in different manner. The producers will be gainer in as much as their articles can be sold at a higher price; but we should remember in this connection that this high profit can be reaped only so long as the cost of production does not rise proportionately. In India we find that the rate of wages lags behind and does not speedily respond to the rising prices. The cultivators will be benefited by rising prices because their articles will be exchanged for a large amount of rupees; but this gain will be a nominal one if the prices of other commodities which the cultivators are to purchase in order that they may keep their body and soul together rise in the same proportion. They will however derive much benefit in connection with the repayment of their debts because the creditors cannot but demand the same amount of rupees with interest. The small landowning classes will derive much benefit from the rising prices because the income from their land will increase while the revenue payble to the Government will remain the same. In the raiyatwari system of tenure where settlement is made directly with the riyots they will be at an advantage because their income will rise in terms of money but they will have to pay the same amount of revenue to the state. But the big zemindars whose income is derived from the rents realised from the tenants and who are not entitled to raise the amount of rent payable by the tenant whenever they like will be hard hit because their expenses will increase while their income will remain the same.

The produce will be benefited.

The debtors will gain.

The small land-owners will gain but the big zemindars will lose.

The persons with fixed income will be seriously affected. Thus the employees either in Government service or in private service will

The persons with fixed income will be hard hit.

suffer because their income will not increase in response to the rising prices. Similarly, the creditors and the holders of Government and other securities will be at a disadvantage because their loans and investment will bring a fixed amount of income while their expenses will increase on account of the rising prices. Again the professional men such as lawyers, physicians whose fees do not respond to the rising prices will be the worst sufferers. Their expenses would rise considerably because they have to maintain their comparatively high standard of living but they cannot increase their fees.

The wages lag behind.

The wages of the unskilled labourers will lag behind. The producers can afford to increase their wages but they will not do so because they are selfish men. The employers will enjoy higher income at the expense of the poor labourers. The labourers cannot enjoy the fruits of their own endeavour and their wages cannot be readily adjusted to the rising price-level because there is no such organisation of labourers which can compel the employers to raise their wages or to make other favourable arrangements for their employment. The trade-union movement is still in its infancy in India.

Sc. 7. Is rise in prices beneficial to the country?

The rise in price indicates the economic prosperity of he country.

We have studied in the preceding section the effect of rising prices upon the economic position of the different sections of people. We shall now discuss its effect upon the economic condition of the country as a whole. Mr. K. L. Dutt is of opinion that the rising prices have contributed greatly to the development of India's resources. The rise in prices has added to the wealth of the country by increasing the profits that can be derived from agriculture and other industries. The wages that are paid to the labouring classes have increased considerably. "That the pecuniary

condition of the people of India has improved is indicated by the increase in the consumption of foreign articles of luxury. The increase in the importation of and the heavy absorption of precious metals by India bear witness to the fact that people of India can afford to spend money in purchasing those articles which are not at all required for keeping their body and soul together. The prosperity of the country is to be measured by the volume of her production and the extent of her consumption. During the rising prices the volume of production has increased considerably on account of the impetus that has been given to the industries of India. The export trade of country has expanded and in consequence India has a considerable balance in her favour after paying the value of her imported commodities. This surplus balance in her favour is liquidated by the importation of precious metal in sufficient quantities. From what has been described above it is clear that according to Mr. Dutt the rise in prices has contributed to the real progress of the country.

Sc. 8. The recent fall in prices.

Causes of the general fall in prices.

Since 1925-26 there has been a general fall in the level of prices. This fall has not been peculiar to India but we find that other countries of the world are keenly feeling the effects of a fall in prices. This general fall in prices has been brought about by various causes. The world-wide fall is attributed partly to over-production of commodities and partly to inadequacy in the supply of gold for the requirements of the world as a whole. Among causes peculiar to India we may mention the attempt on the part of the Government to maintain the rate of exchange at 1s. 6d. The prices of rice, wheat and jute have reached the lowest figure and the agriculturists of India who are ordinarily debtors have been the worst sufferers.

Classes of people affected.

The rent payable to the landlord and the cost of production remain almost unaltered while the agriculturists get fewer rupees in exchange for the products that they turn out. Attempt should be made to improve the conditions of the agriculturists by encouraging production with the up-to-date appliances and by reducing the rent payable to the landlord in cases where such reduction is possible. The fall in prices has also affected the interests of the artisans and industrialists. The manufactured articles can be sold only at a lower price but the cost of production cannot be reduced considerably because the wage-earners are not ready to accept lower rate of wages.

Questions and Answers.

1. Enumerate the principal causes of the recent rise in prices in India, which of those causes do you consider to be peculiar to India? (C. U. 1916.—See Sec. 4.)

2. The following are among the causes of the high prices in India.

   (a) Development of communication and lowering of the cost of transport.

   (b) Growth of banking facilities and the development of credit. (C. U. 1917.—See Sec. 4.)

3. Examine the principal causes for the variation of agricultural prices in India. Do you consider that rising or falling of prices are preferable from the standpoint of general prosperity. (C. U. 1919.—See Secs. 4 & 7).

4. Mention the economic effects of the recent rise of prices in India. (C. U. 1921. See Secs. 6 and 7.)

5. How the changes in prices are to be measured. (See Sec. 2.)

CHAPTER XVII.

UNEMPLOYMENT.

Sc. 1. The problem of unemployment.

Like all other civilised countries India now finds it difficult to solve the problem of unemployment; but the problem of unemployment in India differs considerably from that in the western countries which have already flourished in the sphere of industry. In western countries unemployment has been generally the result of industrial depression occasioned by the maladjustment between production and consumption. We cannot, however, dogmatically assert that in India there has never been such maladjustment which brings about depression of trade and industry. What we mean to suggest is that the part played by this factor is not very important in India where industrial revolution has not as yet succeeded in making the population more or less dependent upon the industries. The problem of unemployment has to be studied here with reference to several other factors which are peculiar to India.

Unemployment among different classes.

India is a country where the population is mainly dependent upon agriculture which can only demand a seasonal employment of labourers. The labourers are thus out of employment when they have no work in the field to do. Again, failure of monsoons which occurs frequently in India leads to cessation of agricultural operations and complicates the problem of employment. Another class of labourers who are suffering greatly on account of unemployment is the artisan class.

The industrial revolution has not yet been complete. India is now in a transition and in consequence the artisans who used to carry on production in cottages have been thrown out of employment.

Another section of the community which has been recently faced with the problem of unemployment is the middle-class section which includes people who are literate and depend more or less upon the clerical occupation.

Sc. 2. Causes of unemployment.

India is a country where agriculture is the principal occupation of the people, but there are other occupations in which people of India are often employed. People are sometimes employed in industrial and commercial undertakings and in the clerical and other educational services; but these occupations can afford to engage only a limited number of persons. In this section we shall discuss the various causes of unemployment.

Rural unemployment in slack season.

(i) Rural unemployment which means unemployment of the agriculturists generally manifests itself when the agricultural season is over. The agriculturists have to remain idle during that time when there is no demand for their services and have to starve if they have not stored enough crops for consumption. The situation becomes aggravated when there is a failure of rains which makes it impossible for the agriculturists to carry on agricultural operations.

Economic depression.

(ii) The next important cause of unemployment is the world-wide economic depression which has its worst effect upon the trade and industries of India. The foreigners who used to purchase large quantities of India's raw materials have reduced their demand for the

same and this has led to a fall in the prices of products and necessitated a diminution in the scale of production. Again the manufacturers are not in a position to reduce the cost of production and have been forced to suspend their work. The merchants who employ people to help them in their business have either to suspend their business or to dispense with services of the new officers. The income of the Government has been considerably reduced with the result that it is thinking of reducing the salaries of officers and curtailing its expenses in every possible ways.

The system of liberal education causes unemployment.

(iii) The present system of liberal education is another cause of unemployment. The parents send their boys to schools and colleges where they get training which may help them in passing certain University examinations. The literary occupations and learned professions attract them but when they finish their University courses and come into touch with the stern realities they find to their surprise that they have been misled. The legal and the medical profession are already overcrowded and the junior members are often found to pass their days in utter disappointment. The expensive training which men of these profession must have exhausts the stock of capital which they or their fathers possess and brings them disappointment. The clerical occupations which tempt many applicants have already been overstocked. Another defect of the system of education lies in the fact that it does not inspire a sense of dignity of labour. People who have got only a smattering of education are found to abhor all sorts of manual exertion which their hereditary occupations involve.

Few avenues of employment.

(iv) We have already seen the defects of liberal education and accused the parents who send their children to school and colleges; but if we study the present state of things critically

we find that the parents sometimes have no other alternative but to send thir boys to get liberal education. India as it stands to-day has only a few avenues of employment. Technical Schools are training boys but the industries which have been established in India cannot afford to employ all the trained men. The present problem of unemployment cannot be solved unless care is taken to foster the economic development of the country.

Social causes and prejudices

(v) Certain social causes such as early marriage, social prejudices and joint family system have been responsible for unemployment. Early marriage which throws the responsibility of maintaining family upon people who are too young to bear such responsibility compels them to join any occupation they find and to accept any remuneration which the employers are willing to pay. Social prejudices often stand on the way of adopting some professions which may enable people to earn a decent income. The joint family system makes some members more or less dependent upon other earning members, encourages idleness and cramps individual initiative and ambition.

Sc. 3. Suggested remedies.

Utilization of the economic resources.

The problem of unemployment is a complex one but efforts must be made to solve it. There must be increasing avenues of employment so that people may not die of starvation. This is possible if the economic resources of the country can be worked successfully. New industries should be opened and the difficulties which now impede their progress must be removed. Mere change in the system of education cannot solve the problem. The technical schools will be useless if the trained labourers do not get employment in firms which require their services. Care should also be taken to change the social system

and to uproot all those prejudices which hamper the economic development of the country.

Certain other suggestions have been made. One such suggestion speaks of the utility of Employment Bureau. We cannot ignore the usefulness of such a bureaux in a vast country like India where people do not and cannot know the persons who demand their services. It should be remembered, however, that this cannot create new avenues of employment. **Employment bureau.**

Migration to other parts of the world has been suggested as another remedy; but this remedy will be of no avail inasmuchas the problem of unemployment is equally complex in other parts of the world. The distribution of population within the country may serve as palliative but will not be the proper solution of the problem. **Migration.**

Efforts should also be made to induce the educated people to live in villages and to cultivate the few acres of land which they possess.

CHAPTER XVIII.

PUBLIC FINANCE.

Sc. 1. Why economic science deals with Public Finance.

Public finance deals with the revenues and expenditures of the Govt.

The Economic Science deals with human wealth. It is a study of man in the ordinary business of life. It takes into consideration the method by which wealth is produced and the manner in which the wealth is expended. The Science is not complete unless it has dealt with the acquisition and expenditure of wealth by the state. Public Finance is that part of economics which is concerned with the revenues and expenditures of the Governments and with the administration of such revenue and expenditures. According to Mr. Plehn Public Finance is "a science which deals with the activity of the Statesman in obtaining and applying the material means necessary for fulfilling the proper function of the state." In Indian Economics this Chapter on public finance will be devoted to a consideration of the sources of Indian revenues and the various items of expenditure.

Sc. 2. The Sources of Revenue.

and non-revenue.

The Sources of revenue of the Government of India may be classified under two principal heads —(1 Taxation, (2 other miscellaneous ways. The first class viz.—Taxation may be subdivided into as many groups as there are different kinds of taxes levied by the Government. Taxation has been the principal source of revenue and the Government of India has imposed various

kinds of taxes partly with a view to increse the revenue and partly with a view to avoid the evils that follow from a 'single tax' system. The second class viz., the non-tax sources include several other ways in which the Government of India derives considerable amount of revenue. These are:—(1) The Public domains such as lands, forests and mines which are owned by the Government. 2) The commercial undertaking as represented by the Post offices and the State Railways. These bring considerable amount of revenue to the Government every year. (3) The revenues from interest on money lent by the Government and the profit of investment. (4) The incidental earnings of the Government. These are represented by the fees charged and special assessment levid upon persons who have derived some special benefit from the Government. Considerable amount of revenue is yielded by the Court Fees that are to be paid by people desirous of instituting suit in a Court of Justice. (5) Public monopolies—The Government of India has the monopoly in the production of opium and derives large amount of revenue from this source. (6) Miscellaneous receipts. These include the tributes and the departmental receipts.

Varieties of non-tax

Sc. 3. Definition of tax ; how it is to be distinguished from 'fee.'

A tax is a compulsory contribution imposed upon persons for the general purposes of the Government. Every person upon whom a tax is levied must pay it. He cannot refuse payment of tax simply because he does not derive any independent benefit by making such payment. The taxes are imposed not for conferring upon the taxpayer any special benefit but for providing the Government with funds necessary for the general administration of the country. Again,

The object of taxation.

we find that the heavier burden of taxation falls or should fall on those who obtain the least benefit from the State. The equity of taxation consists in throwing heavier burden upon those who are in a position to bear the burden of such taxation.

The definition of fee.

Fee and special assessment are to be paid by persons who receive certain special benifit from the Government. Thus court fees are to be paid by the suitors who desire to be benifited by the administration of justice by the State. These are paid because the person paying the same seeks the help of the state in the matter of settle ment of disputes. The payment of fee is not compulsory in this sense that people can avoid the payment by not demanding any special benefit from the state.

Sc. 4. The Principle of Sound Taxation.

Principles which should govern taxation.

The taxation is the principal source of Indian revenue. The Government has from time to time imposed different kinds of taxes. The principles that the Government of the country follows in levying different kinds of taxes should be such as to throw the burden of taxes upon those who are in a position to bear it. A system of taxation cannot be of sound character unless it is based upon the following principles viz. (1) Taxes should be imposed with due reference to the ability of the persons to pay taxes. This ability is to be measured by the amount of income that a particular person may happen to earn. (2) The taxes should be collected in a convenient time so that the taxpayers may find no difficulty in paying the taxes. (3) Taxation should be certain; in other words the tax-payer must definitely know how much they are to contribute and when they are to contribute of the state. (4) It should be elastic enough to respond speedily to the increasing demands. (5) the cost

of collection of taxes should not be considerable in amount. If taxes are levied in such a manner that the cost which has to be incurred in collecting them exceeds the income from taxation the State will derive no benefit from such taxation. (6) Again, the State should take as little as possible from the pockets of the people. If the State inposes a tax which takes away a large part of the income the efficiency of the people will be undermined. (7) The taxation should not check the habit of saving.

Sc. 5. The different kinds of taxes.

There are two principal kinds of taxes in India. Thy are the direct and the indirect taxes. A tax is said to be direct when the tax-payer is also the tax-bearer, in other words when the incidence of taxation falls upon the person who pays it. The income tax and the land revenue are instances of direct tax levied in India. An indirect tax on the other hand means a kind of tax the incidence of which is expected in the eye of law to fall upon a person other than the person who actually pays it. An excise duty payable by the producer of cotton goods is an instance of indirect tax in as much as the burden of this tax will not be borne by the actual payer but will fall upon the consumers. The salt duty gives us another instance of indirect taxes. In this case the duty enters into the price of the commodity and is ultimately paid by the consumers when they purchase salt. The two kinds of taxes mentioned above have their respective merits and demerits. The merits of a direct tax may be summarised thus :—

Direct and indirect taxes.

The merits of direct taxation.

(1) Equity in taxation can possibly be attained by the impositlon of direct taxes. We cannot impose tax with reference to the income of the tax-payer unless the incidence of tax is brone by the person who actually pays it. Again,

the progressive principle which is the soundest principle of taxation is applicable only when taxes are direct in character.

(2) This form of tax has been highly productive in many countries. In India the Land revenue and the income taxes have yielded larger amount of revenue.

(3 The direct taxes can scarcely be evaded inasmuch as they are collected at the source. So far as the income tax is concerned there is however a chance of evasion when the incomes of professional men are to be assessed.

(4) The direct taxes are certain because the tax payer will definitely know how much he is to contribute, when and why he is to make payment.

(5) The tax-payer is aware of the fact that he is paying revenue for the general purposes of the Government. In consequence, he is expected to enquire into the manner in which the Government spends the amount of money so realised. Thus he will take interest in the proper administration of the country.

The demerits of the direct taxes are mentioned below.

The defect Direct taxation.

(1 The direct taxes will be more unpopular than indirect taxes because in the former case people know that they are paying taxes while in the latter case they pay taxes quite unconsciously while purchasing commodities. Few people are ever aware of the fact that in purchasing salt they are contributing to the revenue of the Government but every person who has to pay income tax keenly feels the rigour of such tax. But this unpopularity will dwindle with the development of a consciousness that payment of such taxes is more equitable because it will throw heavier burden upon those who are able to bear it without difficulty.

(2 The direct taxation is expensive because tax is to be collected from the person upon whom it is imposed. In the case of indirect taxation tax will be realised from the producer and the producer in his turn will realise the amount paid by him from the purchaser.

(3) They are less elastic than indirect taxes.

The merit of indirect taxation.

The merits of indirect taxes are the following :—

(1) They are not unpopular because the people pay such taxes without knowing that they are paying them. Hence the people will seldom object to the imposition of such taxes.

(2) In times of prosperity they will be productive and elastic without imposing undue burden upon the community.

(3) The imposition of such taxes can never check the accumulation of capital because it is never collected directly from the people.

(4) The tax is collected at the most convenient time and a person is not compelled to pay it. He can avoid the payment by not purchasing the commodidity.

5) The indirect taxes will bring considerable amount of revenue and will thereby reduce the number of direct taxes which are highly condemned by the public.

The demerit of indirect taxes may be stated in the following lines :—

The demerit of indirect taxation.

(1) The imposition of indirect taxes is inequitable in principle because it often throws a heavier burden upon those who on account of their poverty are least able to bear it. If the tax is levied upon the cotton goods the poor persons will have to bear the heavier burden because they have to spend a larger percentage of their humble income upon cotton goods.

(2) The revenue derived from indirect taxes will shrink very much in times of depression.

(3) Sometimes the imposition of such taxes will prejudicially affect the industries of the country. Thus the imposition of cotton excise duty upon cotton goods produced by Indian mills hampered the progress of cotton industries.

(4) The progressive principle of taxation the adoption of which leads to an equity in taxation cannot be applied in case of indirect taxes.

(5) The expenses of taxation will sometimes be considerable. As a general rule the direct taxes will involve a larger expense of collection but there are some indirect taxes which are expensive in collection.

Sc. 6. The peculiar feature of Indian taxation.

The inequitable system of taxation.

The system of taxation in India has not been based upon the equitable principle. According to this principle taxes should be imposed upon persons withe due reference to their ability. This ability is measured by the amount of 'income. Thus a sound system of taxation requires that the incidence of taxation should be distributed among the tax payers with refer. ence to their respective incomes. The rich should be compelled to bear a burden of taxation which is much heavier than that borne by the poor. This sound principle of taxation can possibly be given effect to when there is direct taxation. In India, however, we find that there is too tittle of direct taxation and there is too much of indirect taxation. The result is that the richer classes do not contribute their fair share of the burden and a heavier burden of taxation falls upon the poorer section of the community. Attempts, however are being made to make the system of taxation more equitable. Certain arti-

Steps taken for making the system equitable.

cles of luxury which are consumed by the rich have been taxed and the cotton excise duty which increased the pressure of taxation upon the poor has been abolished. The progressive principle of taxation has been adopted in assessing the income tax. This principle is equitable inasmuchas the capacity of the person to bear the burden of taxation increases more than in proportion to their income.

Sc. 7. The principal sources of Indian revenue.

Various heads of revenue.

The income of the Government is to be adjusted to the expenditure of the Government. In the budget that is framed by the Finance Member we will often find an attempt to make such adjustment between the revenue and expenditure. In this section we shall have an account of the chief sources of revenue (provincial and central). These are:—(1) customs, (2) land revenue, (3) railways, (4) Excise, (5) Income tax, (6) Stamps, (7) irrigation, (8) Salt, (9) Military receipts, (10) other heads.

The policy which regulates the custom duties.

(I) Customs—the customs have been the most productive of all sources of revenue. The revenue under this head is derived from the duties imposed upon imported and exported commodities. The Government of India is a supporter of free trade policy and in consequence, the duty upon foreign commodities imported into India has been imposed merely for revenue purposes. The import duties levied upon certain articles such as sugar, paper, cotton piece goods have been raised from time to time with the result that they have assumed a protective character. The Government again has raised the duty imposed upon certain manufactured articles with a view to protect the infant industries of the country. The policy of discriminating protection has been adopted by

the Government in accordance with the recommendation of the Fiscal Commission and a Tariff Board has been appointed to advise the Government in the matter of industries that deserve protection. Thus we find that there has been a change of Fiscal policy. The Government has already protected the Iron and Steel industry of India by increasing the import-duty upon iron and steel manufactures. The imposition of a protective duty is detrimental to the interest of the Government because a protective duty will shut out foreign competition and will not help the Government in the acquisition of revenue. In India, however, there is too little of such protective tariff and the import duties have been levied mainly for revenue purposes.

Special characteristics of custom duties

The custom duties (revenue duties) are characterised by certain useful qualities which are of the highest importance to the state. These qualities may be briefly stated in the following lines :—

(1) High productivity:—In times of prosperity when the imports of the country will be considerable in amount the custom duties will be highly productive.

(2) Cheapness of collection:—The custom duties will be collected from the importers and exporters and for that reason the cost of collection will not play an important part.

(3) It will not be unpopular because the burden of such taxation will be borne unconsciously.

(4) Elasticity:—A slight rise in the custom duties will increase the revenue of the Government considerably without causing undue pressure upon the people. The Government has from time to time regulated the custom duties so as to increase its revenue. The custom duties yielded in the year in 1924-25 as large a revenue

as Rs. 45·75 crores. This covered at least 34 per cent of the total revenue of the Government. It should be remembered in this connection that the customs form the central source of revenue. The revenue under this head is increasing every year. In 1925-26 it amounted to about Rs. 48· crores and in 1928-29 it rose to Rs. 49·72 crores.

The land revenue was the main stay of Indian Finance.

II. Land revenue:--This is a very important source of Provincial revenue. The provincial Governments derive large amount of revenue from this source. In Bengal the revenue has been fixed for all time to come while in other provinces the revenue is determined by temporary settlement. These latter provinces have, therefore, an opportunity to increase the amount of revenue after the expiry of the term of settlement. Formerly it was the mainstay of Indian finance but the present tendency of reducing the incidence of assessment and the introduction of other kinds of taxation have removed the land revenue from the pre-eminent position that it once occupied. The total amount of revenue derived from this source is going on increasing. In 1924-25 it yielded an amount of revenue which was equivalent to about Rs. 40 crores. Besides this large amount of revenue the Government derives considerable amount of revenue from the forests which are under the control of the Forest Department. The revenue derived from forests is also a provincial source of revenue. This income mainly accrues from the sale of timber which is of high value.

The separation of the Railway budget.

III. The Railways:—The Railways in India bring considerable amount of revenue to the Government. The administration of Railways indicates that the Government of India derives its revenue not by taxation merely but some part of its revenue comes from commercial undertakings. In 1924-25 the Railways yielded a net

revenue of about Rs. 37 crores. The revenue so derived is enjoyed by the Central Government; one salient feature of the Railway administration during the recent years is the separation of the Railway Finance from the General Finance. The proposal for such separation sprang from the report submitted by the Acworth Committee which clearly pointed out the unhappy results that followed from the incorporation of the Railway expenditure in the general budget. The expenditure for the extension of Railways depended greatly upon the general financial position of the Government. The separation of Railway budget, however, would enable the Government to finance the Raiways purely as a business undertaking quite unconnected with the general administration of the Government. A scheme was therefore placed before the Legislative Assembly for such separation. According to this scheme an obligation was cast upon the Railways to make certain amount of contribution to the General Finances of the Government. This contribution was settled on the basis of one per cent. on the capital at charge of the commercial line in the penultimate year, plus one-fifth of the surplus profits in that year, interest on capital at the charge of strategic lines and loss being deducted.

A Railway reserve should be constituted.

A Railway reserve should be constituted out of the income from the Railways after the payment of the contribution to the General Finances. Again, a provision was made to this effect that when the amount available for transfer to the Railway reserves should exceed Rs. 3 crores, one-third of the excess should be paid to the General Revenue. The reserve so created would be utilised in securing the annual payment of contribution and in improving the financial position of the Railways. The separation of the Railway budget produced important consequences inas-

much as it ensured to the General Finance a definite annual contribution and at the same time relieved the people of additional taxation. Again, it facilitated the adjustment of income to the expenditure of the Government. The scheme was ratified by the Legislative Assembly in September, 1924.

The net earnings from the railways are decreasing gradually. This decrease is partly due to the shortage of goods traffic and partly to the increase in interest charges and in the cost of working. The net gain from the state lines was Rs. 10·85 lakhs in 1927-28 while in the year 1928-29 the Railways yielded a net income of Rs. 7·81 lakhs. Out of these net gains Rs. 6·28 lakhs were paid in 1927-28 and Rs. 23 lakhs were paid in 1928-29 to the General Revenue as contribution and the rest in each year was transferred to the Reserve Fund.

The various kinds of excise duty.

IV. Excise:—A considerable amount of revenue is derived by the Government from this source. It is a provincial source of revenue and the different provinces have imposed different rates of excise duty upon liquors, opium and other kinds of intoxicating substances which are consumed by the people. The policy underlying the imposition of duties upon such articles is to restrict the consumption. The duties have been increased from time to time and the increase in revenue from this source has been mainly due to the progressive rates. There are several other kinds of excise duty. The duty levied upon kerosene and spirit also falls under this head. The increased consumption of these articles have led to an increase in the total revenue that the Government derives from this source. For a period of time the Government imposed an excise duty upon cotton goods with a view to pacify the Manchester people but this duty was abolished in 1926. The imposition of

excise duty upon articles the consumption of which is detrimental to the health and strength of the population is no doubt desirable but the excise duty levied upon harmless indigenous commodities hampers the economic development of the country. The amount of revenue that the Government derived from this source in 1924-25 was about Rs. 20 crores.

Mr. J. Coatman, Director of Public information summarises the excise policy of the Government in the following lines :—

"Both the Government of India and the Provincial Governments have adopted policies which aim at ensuring the utmost moderation possible in the use of alcoholic liquors. These policies may be coveniently, if somewhat loosely summed up in the one phrase "minimum consumption, maximum revenue." The production of liquor is controlled as efficiently as the circumstances permit and increased excise duties discourage excessive indulgence."

The opium policy of the Govt.; the reduction of export trade.

V. Opium:—The revenue derived from this source played a prominent part in former times but of late a new policy has been adopted by the Government with the result that the revenue is dwindling every year. The production of opium in British India is the monopoly of the Government. The Government, therefore is in a position to derive a monopoly profit by selling opium manufatured in Government factories. Other items of income derived from this source consist of income from export duty levied upon opium supplied by the Native States and of income from license fees realised from the vendors. The opium traffic within the country is regulated by the provincial Governments while the Government of India has retained its control over the production and exportation of this article. The export trade of opium is now carried on with reference to the international agreement. The

export of opium to any non-Asiatic country other than the United Kingdom is now prohibited. Opium can be exported to the latter kind only for medicinal purposes and the Import Certificate system has been introduced with a view to regulate the exportation of opium. Again, it has been announced that the extinction of exports of opium for other than medicinal and scientific purposes will be accomplished by the end of December, 1935. The present opium policy of the Government has thus been regulated by the international agreement and the result is that the production and the export trade of opium has been reduced greatly. Efforts have also been made to reduce the consumption of opium within the country. In 1910-11 the consumption for the whole of India was 12,527 maunds and in 1925-26 it was 7,282 maunds. Although the revenue of the Central Government has decreased on account of the reduction of the exportation of opium the revenue derived by the Provincial Government has risen from Rs. 1·63 crores in 1910-11 to Rs. 3·41 crores in 1925-1926. This rise in the opium revenue has been occasioned by the enchanced price at which opium is sold in the market.

The history of the Income Tax System.

VI. Income tax:—The income tax is the most important of all direct taxes levied in India. It was introduced for the first time in 1860 and continued in force till 1865 when it was abolished. The incidence of the taxation was very heavy because it did not exempt even an income of Rs. 20. The rate of assessment was 2 per cent. when the income was between Rs. 200 and Rs. 500. For a period of four years there was no income tax. In 1867 a license tax was imposed on professions and trade. This tax remained in force till 1872—73. Again, in 1877 a license tax was imposed on traders and artisans and each provincial Government passed necessary act for this purpose

in 1878. The system of taxing income was made premanent by the Income Tax Act of 1888. The Act provided for the taxation of all incomes other than agricultural incomes. The rate of assessment was 4 pies in the rupee when the incomes fluctuated between Rs. 500 and Rs. 2000 and all incomes over Rs. 2000 were assessed at the rate of 5 pies in the rupee. Charities and religious endowment were exempted from taxation. The minimum income that was exempted from taxation was Rs. 500. The taxable minimum was raised to Rs. 1000 by the Income Tax Act of 1903 and to Rs. 2000 by the Act of 1919. The principle of taxation that has been adopted by the Government in assessing the income is a progressive one. The rate of assessment changes with the change in the income to be assessed. The following table will show how far the progressive principle of taxation has been adopted :—

The Progressive principle.

Income.				Rate
From	Rs. 20,00	to Rs	50,00	5 Pies in the Rupee.
,,	Rs. 5000	to Rs	10,000	6 ,, ,,
,,	Rs. 10,000	to Rs.	20,000	9 ,, ,,
,,	Rs. 20,000	to Rs.	30,000	1 anna in the Rupee
,,	Rs. 30,000	to Rs.	40,000	1 anna 3 pies in the Rupee.
Over	Rs. 40,000			1 anna 4 pies ,, ,,

The above table applies only in the case of individuals, Hindu undivided families, unregistered firms and other associations not being a registered firm or company. In the case of every company or registered firm income tax is levied at the rate of 19 pies in the rupee irrespective of the amount of minimum income.

The super-tax.

Besides this income tax another tax known as the super tax has been levied upon incomes over Rs. 50,000. This was imposed for the first time in 1917 in order to meet the financial stringency

during the war time. In this case also the progressive principle has been adopted becsuse it is the only principle that secures equity in taxation. This super-tax is to be paid in addition to income tax when the income is a lakh of rupees. No super tax is to be paid for the first Rs.50,000 but for the next Rs.50,000 the super tax is to be paid. The rate of assessment is 1 anna in the rupee when the income does not exceed Rs. 1,00,000 ; but as the income exceeds Rs. 1 lakh the rate of tax also increases.

The income tax is the central source of revenue. The revenue yielded by this tax has increased considerable since the war time. In 1926 the revenue that the Government of India derived from this source was about Rs. 16 crores.

The provision of the Income tax Act, 1922.

The Act definitely laid down that the incomes of the following descriptions will be chargeable to incometax.

(i) Salaries, (ii) Interest on securities, (iii) Property, (iv) Business, (v) Professional earnings, (vi) other sources.

The act also clearly explained how the income liable to assessment is to determined. In a case where the salary of a person is to assessed tax shall not be payable in respect of any sum deducted under the authority of the Government from the salary of any individual for the purpose of securing to him a deferred annuity or of making provision for his wife and children provided the sum so deducted shall not exceed one-sixth of the salary. In the second case tax will be levied in respect of interest derived from any security of the Government of India or of any local Government or on debentures or other securities issued by or on behalf of a local authority or a company. But no tax will be levied upon inter-

est accruing from securities which have been declared by the Government of India to be income-tax free. In the third case tax is to be imposed with reference to the bonafide annual value of the property subject to certain allowances enumerated in the Act. In the fourth case the tax is payable in respect of the profits or gain of any business carried on by him and these gains and profits are to be computed in a manner laid down in the Act. In case of professional earnings the tax is to be impossed on the profits and gains of any profession after the due allowance has been made for any expenditure incurred solely for the purpose of such profession but no allowance shall be made on account of the personal expense of the assessee.

The Act enumerates the following cases of general exemptions :—

(1) The tax shall not be payable by any assessee in respect of any sum which he receives as a member of the Hindu undivided family.

(2) The tax shall not be payable by an assessee in respect of

(a) any sum which he receives by way of dividend as a share-holder in a company where profits or gains of the company have been assessed to income; because otherwise there will be double taxation.

(b) such an amount of profits or gains of any firm which has been assessed to income tax as is proportionate to his share in the firm.

(3) The premiums paid to Insurance companies to effect an Insurance are exempted from taxation.

In India however no allowance is made for the maintenance of dependents. In other civilised countries certain allowances are made on account of the maintenance of wife and children. This is in accordance with the principle of equity. The system of taxation cannot be equitable in India unless such allowances are made. The minimum income that is at present exempted from taxation is too high. True it is that England does not allow her citizens to enjoy such high incomes free from taxation but if we take into account the system of giving allowances in the case of wives and children which prevails in England we will find that the exemption limit in the case of married persons is higher in England. Again, so far as lower incomes are concerned the rate of tax is higher in India than in England.

Exemption of agricultural income.

Another important fact which we should note in this connection is the exemption of agricultural income from taxation. The exclusion of such income from the list of taxable income explains in a measure the absence of any distinction between earned and unearned income.

Sir Walter Layton's suggestions

It has been suggested by Sir Walter Layton the Financial Assessor on the Simon Commission that the Government should remove the exemption of agricultural income from taxation by stages at specified dates. He is of opinion that argument that taxation of agricultural income will mean double taxation has no force because the land revenue does not increase in proportion to increased productivity of the soil. Again, the tax can be levied easily and will not require any complicated machinery to impose it. Another advantage of such taxation lies in the fact that it will foster the investment of capital in industrial enterprises.

Government view.

The Government of India however is not willing to impose taxes upon agricultural income in view of the fact that the exemption of such income has the

sanction of a long tradition and the dealings on land have always been conducted on the assumption that the exemption will hold good for ever.

Different kinds of stamp.

VII. Stamps :—This head of revenue is being enjoyed by the Provincial Governments since the reforms Act. The stamps are of two different kinds viz. (1) The commercial stamps and (2) The judicial stamps. The latter kind of stamps plays the more important part because a larger percentage of the revenue is derived from this kind of stamp. Again, the judicial stamp is to be purchased by a person who has to institute suits in the law court. The payment, therefore, is to be made for the special benefit that the person instituting the suit derives from the state. This is the reason why the payment is termed as fee and not as tax. The revenue under this head is increasing with the increase in litigation. In 1924-25 the revenue derived from this source amounted to about Rs. 13 crores.

A productive source.

VIII. Irrigation :—The Provincial Governments have to spend considerable amount of money in the construction and improvement of the irrigation canals ; but this expenditure has been productive of revenue and the revenue derived from this source was about Rs. 7 crores in 1924-25 but the whole of this revenue did not represent a net income of the Government. From this revenue considerable deduction was to be made on account of interest payable on debt that the Government had incurred for the purpose. After this deduction had been made there was still a surpuls of about Rs. 4 crores.

by the Govt. imposes salt duty.

IX. Salt :—The duty upon salt violates every principle of sound taxation inasmuchas the heavier burden of this tax falls upon the poor persons ; but the Government has continued to impose this tax for three reasons—(1) It is productive of large amount of revenue to the state,

(2) the cost of collection is very small and in sense the tax is said to be based on the principle economy. (3) It is the only way in which the masses of the people can be compelled to make some contribution to the revenue of the state. The rate of this tax has been increased from time to time with a view to remove the financial stringency of the Government. The rate of salt tax prevailed at Rs. $2\frac{1}{2}$ per maund till 1903 when it was reduced to Rs. 2 per maund. Further reduction was made in 1905 and 1907. In 1907 the duty was fixed at Re. 1 per maund. The rate continued at that level till 1916 but on account of financial difficulty the Government of India had to raise this duty. In 1916 the salt duty was raised from Re. 1 to 1-4 as. and later on in 1923-24 the Government raised the duty to Rs. 2-8 as. by the exercise of the special power vested in the Governor-General of India. The duty remained in force for a period of one year but in the next budget the Government was kind enough to reduce the duty to Re. 1-4 as. per maund which is continuing at the present time. The Government of India derives large amount of revenue from this source. In 1925-26 this source yielded a revenue of Rs.$6\frac{1}{3}$ crores.

The rate of salt-tax.

X. Registration :—The Provincial Governments derive considerable amount of revenues from the registration fees that are to be paid by persons who want to have their documents duly registered. The Government has increased its revenue under this head by enacting that certain documents will not be valid unless they are duly registered. The payment under this head can not be described as tax because it has reference to the special benefit that the Government confers by making provision for such registration.

A provincial source of revenue.

XI. Post and Telegraph :—The Central Government of India derives considerable amount of revenue from the commercial under-

takings managed by the Government. We have already seen how much revenue the Government receives every year from the Railways. The Post and Telegraphs give us another instance of the commercial undertaking; but the revenue from the source has fallen in recent times. In 1924-25 the net revenue did not exceed Rs. 50 lakhs.

XII. The Civil Administration :—considerable amount of revenue is derived from this source. This revenue consists of departmental receipts from the various administrative departments of the Government such as, jails, police, public health, education, agriculture and industry.

XIII. Provincial Contribution :—This is another important source of the central revenue and has come into existence in order to make up the deficit in the centrrl budget. We shall discuss the question in detail in some subsequent section.

Sc. 8. The Indian budget.

How the income is adjusted to the expenditure.

The budget means an account of the revenue and expenditure of the Government. After the Reforms Act there has been an allocation of separate sources of revenue to the Central Government as well as to the Provincial Governments. Thus separate budgets are now framed by the Central Government and the provincial Governments. Attempt is being made by the Government to adjust the income to the expenditure but inspite of these efforts the Government cannot avoid deficit budget in some years. In 1927-28 there was an actual deficit of Rs. 2,21 lakhs; in 1928-29 we found a deficit of Rs. 1,06 lakhs in 1929-30 the deficit was Rs. 156 lakhs. The deficit in the Indian budget in recent years shows clearly that the gap caused by the remission of provincial contribution has

not been fully filled. When in the budget there is a deficit the Government has to borrow money to make up the deficit. The curious readers may go through the diagram given below and this will give them an idea about the financial condition of the Government of India.

	Revised estimate (in thousands of rupees.)			Actuals (in thousands of rupees.)		
	Revenue	Expenditure	Surplus(+) Deficit(−)	Revenue.	Expenditure	Surplus(+) Deficit(−)
1919-20	1,44,07,56	1,59,18,67	−151111	1,37,13,98	,60,79,27	−236529
1920-21	1,35,10,35	1,48,03,61	−129326	1,35,63,32	1,61,64,17	−26,0085
1921-22	1,13,15,32	,41,94,52	−287929	1,15,21,50	1,42,86,52	−276502
1922-23	1,2[illegible],70,17	1,37,95,52	−172535	1,2[illegible],41,29	1,36,43,05	−150176
1923-24	1,3[illegible],96,04	1,29,89,07	+20607	1,33,16,63	1,30,77,68	+2,39,00
1924-25	1,34,82,26	1,30,82,68	+39958	1,38,0[illegible],92	1,32,35,65	+56826
1925-26	,31,35,25	1,30,24,87	+130,38	1,33,32,98	1,30,0[illegible],80	+3,31,18

Incomes from the principal sources as estimated in the budget for 1925-26 are given below.

The budget estimate of the year 1925-26 gave an account of incomes of the Central Government in the following manner :—

1. Customs ... Rs. 46·4 crores approximately.
2. Income taxes „ 17·3 „ „
3. Salt ... „ 6·95 „ „
4. Opium ... „ 3·56 „ „
5. Other heads... Rs. 2·23 crores approximately.
6. Railways . „ 33·89 „ „
7. Irrigation .. „ ·0 „ „

8. Post and Telegraph ...	„	·68	„	„
9. Interest receipt	„	3·60	„	„
10. Civil administration ...	„	73	„	„
11. Currency, Mint	„	4·08	„	„
12. Civil works ..	„	10	„	„
13. Miscellaneous	„	43	„	„
14. Military receipts ...	„	4·01	„	„
15. Provincial contribution	„	6·22	„	„
16. Extraordinary items ...	„	38	„	„

Rs. 130·26 crores.

The following table gives us an account of income in crores of rupees derived by the Central and Provincial Government from the respective sources of revenue in 1927-28.

Heads of revenue.	Central.	Provincial.
Customs	48·2142	......
Taxes on income ...	15·0630	·3625
Salt	6·6318	......
Opium	3·9452	......
Land revenue	·4092	35·2782
Excise	·5215	19·3001

Heads of revenue.	Central.	Provincial.
Stamps	·2680	13·3110
Forests	·2459	5·8321
Registration	·0156	1·4577
Tributes	·8397	·4066
Scheduled Taxes ...	......	......
Railways	38·6748	·0480
Irrigation	·0903	6·8634
Post and Telegraphs ...	·3140	......
Interest	3·6191	2·3577
Civil administration ...	·9869	3·8961
Currency and mint ...	2·7746	......
Civil works	· 607	1·0260
Miscellaneous ...	·5246	1·9182
Military receipts ...	1·5449	......
Miscellaneous Central adjustment between central and	·0200	Minus ·0260
Extraordinary receipts ...	·1412	1·2638
Transfers from Revenue Reserve Fund ...	2·2148	
Total revenue ...	127·2278	93·2954

Sc. 9. Expenditure.

The chief heads of expenditure may be classified as follows :—(1) Military services, (2) Railway expenditure, (3) Civil administration, (4) Direct demand on revenue, (5) Debt services, (6) Civil works, (7) Miscellaneous charges.

The heavy military expenditure and its cause.

(1) On the expenditure side the military department plays the predominant part. This item alone absorbs about Rs. 60 crores every year. This heavy expenditure on this particular item has been subject to severe criticism by the Indian public but the Government has not taken care to reduce it because it considers that such expenditure is essential for the maintenance of peace and security. The root cause of this excessive expenditure is the increased employment of European military officers and soldiers whose salaries are several times as great as that of Indian officers and soldiers. Great economy can-be effected in the expenditure of Indian revenue if these British officers and soldiers are replaced by Indian officers and soldiers. The Retrenchment Commission, otherwise known as the Inchape Commission recommended that the military expenditure should in the near future be reduced to Rs. 50 crores. The expenditure of large sum of money on a particular item can be possible only at the expense of the other departments of the Government. In distributing the public revenue among the various items of expenditure an able financier should always aim at conferring the maximum benefit on the community.

The expenditure on Railways and Post Offices.

(2) Railways ; Post and Telegraphs :—

The Government of India carries on these commercial undertakings and has to spend large amount of money every year. In 1924-25 the expenditure of the Government for the administration of Railways amounted to about Rs. 31

crores and in 1925-26 it was about Rs. 29 crores. Inspite of this large expenditure the Government derives considerable amount of net revenue every year. Of late there has been a separation of the Railway budget from the general budget and the contribution to be made by the Railways to the General Finance has been regulated. The expenditure on Post and Telegarphs was in 1924-25 about Rs. 30 lakhs. This department also yields an amount of revenue but the amount of revenue yielded by it is decreasing gradually.

(3) Civil Administration :—

The heavy expenditure on these items

The next head of expenditure is that incurred in connection with civil administration. This head of expenditure includes the following items viz (a) general administration, (b) audit, (c) administration of justici, (d) Jails, (e) Police, (f) Port and pilotage, (g) ecclesiastical, (h) political, (i) Fronties watch and werd, (j) scientific department, (k) Education, (l) medical, (m) Public health, (n) agriculture, (o) industries, (p) aviation (r) miscellaneous department, s) Indian stores Department. The central and provincial expenditure in connection with above items, amounted in 1927-28 to about 63 crores of which the provincial Government had to contribute about Rs. 52 crores. In 1927-28 the provincial Governments and the central Government had to spend about Rs. 11·55 crores and Rs. 69 lakhs respectively in the administration of police. This heavy expenditure has been necessitated by the maintenance of "peace and order" which is at present the primary function of the Government. As a result of this heavy expenditure the Government can afford to spend very insignificant amount on the nation-building departments. It is highly desirable that the Government should reduce its expenditure on the head "Police" and increase its expenditure on education and sanitation.

(4) Collection of revenue: -In the expenditure side we will come across with one item which is known as Direct Demands on revenue. The cost of collection of revenue is included in that item and occupies a prominent position there. The expenditure involved in collecting the revenue is about Rs. 5 crores. Attempt should be made to economise this cost of collection.

(5) The debt services: The Government has to spend considerable amount of money every year in paying the interest on both ordinary debts and productive debts as well as the liquidation of some portion of these debts. In 1924-25 the Government both Central and Provincial spent as large an amount as Rs. 21 crores on this particular item. In 1927-28 the total debt services central and provincial amounted to Rs. 18·4980 crores. We shall consider the subject in detail in the next section.

(6) Civil works :—The expenditure both central and provincial incurred in connection with this department amounted to as high a figure as Rs. 13·8672 crores.

(7) Miscellaneous :—This head of expenditure includes among others the following sub-heads viz (i) Famine Relief, (ii) Insurance Fund, (iii) Pensions the expenses incurred by the central and provincial Governments amounted to Rs. 9·9936 crores in 1927-28.

Sc. 10. Public Debt of India.

The productive and the un-productive debts.

The Government of India like every other Government has to borrow money from time to time. The money so borrowed by the Government becomes its debt and the debt is technically known as Public debt. The debts are incurred by the Government for two purposes viz. (i) the productive purposes which include the investment on Railways and irrigation and (2) unproductive

purposes i.e. for the purposes of meeting the ordinary expenses of the Government and of financing the war. The former kind of debt is known as productive debt in as much as the debt will be repaid ultimately out of the revenue that the investments will yield. The debts incurred for Railways and irrigation are liquidated by the Government out of the revenue that it derives from the Railways and irrigation. The latter kind of debt is called the unproductive debt of the Government because this is generally incurred to meet the ordinary expenses of the Government. The burden of this debt falls ultimately upon the people and will be repaid out of the general revenue of the Government. The debts incurred for meeting the extraordinary military expenditure also falls under the category of unproductive debt. The debts of the Government may again be classified into (1) funded and (2) unfunded debts. The former kind of debts is incurred by the Government without any promise to repay them at any particular time but it is repayable only at the option of the Government. This is also known as the perpetual debt. This funded debt consists of the sterling and rupee loans. The unfunded debt (floating debts) signifies a kind of debt which is an advance to the Government repayble by the Government on the demand of the creditor or within a comparatively short period of time. The Savings Bank Deposits and the Treasury Bills represent the unfunded debt of the Government.

The funded and unfunded debts.

The Government of India borrows money both in London and India. Formerly the loans were raised exclusively in London but at present the Indians are found to contribute to the loan of the Government to a considerable extent. The Indians purchase the larger perscentage of the rupee securities.

The Government is justified in borrowing

The justification of Govt. borrowing.

money for the productive purposes because realisation of large amount of money that may be required for investment by taxation will put undue pressure upon the tax-payer. Again, such investment will be beneficial to the interest of the persent generation in the same way as it is beneficial to the interst of future generation. It is therefore desirable that the Government should meet its productive expenditure by loans; but the ordinary expenditure of the Government should be met by means of taxation. An able financier should always aim at reducing the National Debt of the country to the lowest point possible.

The policy of reducing the public debts.

The Government of India has undertaken the policy of reducing the national debt gradually. A scheme has been adopted since 1924 for making distinct provision for liquidation of a part of the debt every year. This scheme will, as the Finance Member says, continue for a period of five years. In introducing the budget for 1927-28 Sir Basil Blacket summarised the position of the public debt thus:—"the position of the Ways and Means and the Public Debt was extremely gratifying. The Government hoped to finance their entire capital programme amounting to Rs. 27 crores and that of the provincial Governments to redeem the maturing debt with less than ten crores of new money. They also hoped that this money would be forthcoming on fovourable terms. They had avoided external borrowing since May 1923 and the next year's budget provided for no such borrowing."

The Provincial loan fund.

The Provincial Government has been given an increasing opportunity of borrowing money from the Central Government by the establishment of Provincial Loan Funds. In 1925-26 a sum of Rs. 9,1264000 was advanced out of this fund to the various Provincial Governments. The Central Government advanced money for the

productive purposes at a rate of interest which represented the cost of new borrowing.

The securities of the Government bear different rates of interest and the value of these securities depends greatly upon the amount of interest that they profess to pay. The value of the 3½ per cent. securities has depreciated very much on account of the issue of 6 per cent. Bonds and 5½ per cent. War Bonds. In 1926-27 the Goverment of India issued a Rupee Loan which took the form of a 4 per cent. tax-bearing issue repayable at par on the 15th September, 1970. The issue price was Rs. 88 giving a yield of nearly

In recent years the Government of India had to borrow large amount of money both in London and Indian market to meet its ordinary expenditure as well as productive expenditure in connection with the Railways. In 1929-30 the Government required money to purchase the Southern Panjab Railway and had no other alternative but to issue sterling bills for £6 millions in London in May and December and the total amount of funds raised in this way amounted to about £ 12 million. The bills carried an interest 6 per sent. Again, in 1930-31 the Government raised £ 12 millions by issuing 1935-7 bonds carrying 6 per cent at par. The Goverument had to offer this high rate of interest because of the existence of a bank rate of 6½ per cent in London and the nervousness caused in the London market for Indian secureties by the attitude adopted at the Congress meeting at Lahore in December. The total interest bearing obligations of the Government of India outstanding at the end of March 1930 amounted to Rs 1138·23 crores. The issue of securities bearing high rate of interest has seriously told upon the value of securities bearing lower rate of interest.

An account of the Public Debt, both productive and unproductive is given below :—

Public Debt 1924-25 (In nearest Crores of Rupees.

Productive.	Central	Provincial.	Remarks.
Railways ...	597·01	·20	
Irrigation ...	3·44	86·44	
Post & Telegraphs	17 12	...	
Forests ...	...	·31	
Salt	·73	...	
Industries ...	...	·02	
	619 00	86·97	
		6·31	Deduct excess of capital.
	619·00	80·66	
Unproductive debt	206·14	41·25	
Total ..	8 5·14	121·91	

Sc. 10a. Taxable Capacity of India.

How to determine the capacity.

The taxable capacity of India as of every other country may be roughly determined by deducting the total quantity of consumption from the total quantity of production after making allowances for seed and manures and for the replacement of and addition to capital required for production. Calculating on this principle we cannot precisely ascertain the taxable capacity of India because we are to depend upon insufficient and unreliable statistical data. In 1921-2 the taxable capacity was found out to be Rs. 39300 lakhs a compared with Rs. 56200 lakhs in

1910-1. Effective taxation which can be determined by deducting expenditure on internal debt from the total tax revenue was Rs. 12933 lakhs, (33 per cent) in 1921-22 as compared with Rs. 7969lakhs (14 per cent.

Sc. 11. Devolution of Provincial Finance.

Formerly all sources of revenue belonged to the Central Government.

At the present time we find that the sources of revenue of the central Government are different from that of the Provincial Government; but this system of financial administration has been introduced very recently. It is interesting to note the circumstances that led to the introduction of this novel system. Formerly, the provinces had no separate source of revenue. The revenues of the Government were credited to the account of the Central Government and the provinces had to depend upon the Central Government for funds that they required in meeting the expenses of their Government. The amount of funds that was made over to the provinces depended upon their power of bargaining. Each Provincial Government used to disturb the Central Government with an increasing demand for funds. The situation of the financial administration during that time was summarized by Sir Richard Strachey thus :—

The condition of the Central and Provincial Finance.

"The distribution of the public income degenerated into something like a scramble, in which the most violent had the advantage, with very little attention to reason ; as local economy brought no local advantage, the stimulus to avoid waste was reduced to a minimum, and as no local growth of the income led to local means of improvement,the interest in devoloping the public revenues was also brought down to the lowest level."

When Lord Mayo became the Viceroy of India an attempt was made to reform this defec-

First decentralisation during the Viceroyalty of Lord Mayo.

tive system of financial administration. This led to the system of making a fixed grant to each Local Government for the maintenance of certain services such as Police, Jail, Education and the Local Governments were at the same time given the authority of supplementing their fixed amount of grant by means of local taxation. The system thus introduced gave the Provincial Governments an opportunity of economising their expenses and the Central Government was relieved of the repeated vexation to which it had been subject. For a period of time the financial administration of India continued smoothly but fresh difficulties arose on account of famines and the falling exchange. As a result of these difficulties further reforms were introduced. The system of making fixed grant to the provinces was substituted by the grant of a share in the revenue. In the settlement that was made with the provinces during 1877-82 we find that certain heads of revenue and expenditure were made over to the provinces for administration but they were not given any fixed amount of fund for the purpose. They were allowed to have some definite share of the revenue derived from cartain sources such as stamp, excise, Law and Justice and others. The object of such decentralisation was to give the provinces an increasing scope for economy in administration and to reduce the rigidity of control that the Central Government used to exercise upon provincial matters.

The settlement during 1877-82.

Division of sources into three classes.

In the next settlement the same system was followed with slight modification. The sources of revenue could be divided into three classes viz (a) central, (b) provincial and (c) divided. There were certain sources which were enjoyed wholly either by the Central, Government or by the Provincial Governments while there were other sources which were divided between the Central Government and the Provincial Governments.

The settlement was subject to revision every five years.

Quasi-permanent Settlement of 1904.

In 1904 an important change took place in the financial administration of India. This was the introduction of quasi-permanent settlement. The revenues assigned to the Provincial Governments were roughly fixed in as much as they were not subject to alteration except in case of extreme and general necessity. This novelity was introduced with a view to give the provinces more independent status and at the same time to promote economy in administration. The Central Government also was relieved of the trouble in connection with the quinquennial settlements.

The Settlement was made permanent in 1912

In 1907 the Decentralisation Commission was appointed to inquire into the existing relation between the Provincial and the Central Government and to suggest reforms. The Commission did not recommend any substantial change. During the administration of Lord Hardinge the existing quasi-permanent settlement was made permanent. This was done in 1912. The position of the central and provincial finances has been summarised before the Montague Chelmsford Reforms by Mr. Coatman in the following manner:—"the budget of the Government of India was made to include the transactions of the Local Governments, the revenue enjoyed by the latter being mainly derived form sources of income which were shared between the Government of India and themselves. Generally speaking,certain heads of revenue such as land revenue excise, salt, income tax and profits from productive irrigation works were divided between the Provincial and the Central Governments. The Provincial Governments took the receipts from Forest and Registration as well as from Courts and Jails. To the Government of India went the revenue from opium, customs, railways, Post and Telegraph and tributes from the Indian

States. The Central Government out of these incomes was responsible for defence charges, for the up-keep of railways, Post and Telegraph for the payment of interest on debt and the Home charges. The provinces from their incomes met the expenses connected with land revenue and the general administration, which forests, police, courts and jails,with education and with medical services. Charges for irrigation and ordinary public works were common to both the Central and the Provincial Governments.

Defects of the financial relations before the reforms.

The financial relation which existed before the Montague Chelmsford Reforms came into operation was defective on the following grounds :—First, the system of dividing revenues derived from certain heads between the Central Government and the Provincial Governments meant constant interference on the part of the Central Government and impeded the development of provincial finance. Secondly the pre-reform system did not confer upon the provinces independent powers of taxation and borrowing and the result was that the provinces could not easily adjust their incomesto their expenditure. Thirdly the system often caused financial inequalities between provinces. Lastly, the system of assisting the provinces by occasional grants had its worst effect upon the provincial finance and encouraged extravagance.

A complete separation was recommended by the Montague-Chelmsford Committee.

The Montague-Chelmsford Committee enquired into the Financial conditions of the provinces and came to the conclusion that the financial autonomy of the provinces could not be secured except by effecting a complete separation between the Central and Provincial finances. With a view to attain that end the Committee made the following recommendations :—

No divided Source.

(1) There should be no divided source of revenue. The sources of revenue should be distributed between the Central and Provincial

Governments. The Land-revenue, irrigation excise and judicial stamps should be made the the purely provincial sources of revenue while the customs, income tax, and general stamps should be retained by the Central Government as a separate source of revenue. In this way a separation between the central and provincial finances will become possible. Following the recommendations of the Montague Chelmsford committee a new allocation of revenue and expenditure was made in a following manner: - (1) Imperial Heads of revenue consisting of customs. Income tax Opium, Salt, Railways, Post and Telegraphs and Military receipt; (2) Provincial Heads of revenue including land revenue, stamp, judicial and non judicial Registration Excise and forest. It should be noted in this connection that although income tax was made an Imperial head of revenue the provinces were given a small share of the income tax revenue, equal to three pies in the tax collection or every additional rupee of the income assessed over and above the income assessed in 1920-21.

How to make up the deficit in the central budget.

(2) Such an allocation of separate sources of revenue to the provincial Governments will bring about a deficit in the central finance. The Committee recommended that the deficit should be made up by the payment of contribution by each province. The assessment of provincial contribution should as the Committee suggested, be proportionate to the gross surplus which each province would enjoy under the new allocation of sources of revenue. This method of assessment did not appear to be just and the Secretary of State appointed in 1920 another Committee known as the Meston Committee to investigate the financial relations between the Central and the Provincial Governments and to suggest an equitable standard of fixing contribu-

The appointment of Meston Committ

tions payable by the provinces. The committee found that the deficit for the year 1921-22 was Rs. 983 lakhs. The contribution that each province would have to pay in order to make up this deficit was fixed by the committee with reference to the additional spending power that the provinces enjoyed that year on account of the allocation of separate source of revenue. The committee recommended the provincialisation of General stamp in order to strengthen the financial position of the Provinces. The standard contributions to be paid by the provinces in the succeeding years were also determined as certain proportion of the total deficit. These proportions were 19 per cent. from Bengal, 18 per cent from the United Provinces 17 per cent from Madras, 13 per cent from Bombay, 10 per cent from Bihar and Orissa, 9 per cent from the Punjab, 6½ per cent from Burma, 5 per cent from the Central Provinces and 2½ per cent from Assam This standard should be adopted within a period of seven years.

The payment of Provincial contribution was suggested as a remedy.

How the provinces criticised the method.

The provinces objected to this method of realising provincial contribution. Madras keenly appreciated the rigour of such settlement because the initial contribution that it had to make was the highest. The provinces regarded the contribution payable by them as a "crippling levy on their revenues." The Government of India however, had no other alternative but to adopt, this scheme of making up the deficit in the central Budget; but the contribution of Bengal had to be remitted on the recommendation of the joint Select Committee of the Parliament. The payment of provincial contribution reduced the revenue of the provinces to a great extent and they were forced by circumstances to impose new taxation and to curtail their enpenditure to the detriment of the material progress of the people. The dyarchical Govern-

ment that was introduced into India by the Government of India Act, 1919 could not be operated successfully for want of adequate funds. The financial position of the Government did not improve for a period of time and hence no question of remission of provincial contribution could possibly arise during the several years that followed the Meston Award. In 1925-26 the Finance Member had the pleasure of declaring a surplus budget. The budget of that year showed a surplus of 324 lakhs of rupees and the Finance member announced that a large sum of 250 lakhs of rupees would be utilised in securing a permanent remission of provincial contributions; but every province had not the equal claim to remission; the Government of India followed a certain equitable plan in reducing the provincial contribution and according to that plan Madras, United Provinces the Punjab and Burma were given the prior claim over other provinces. In the next Budget i. e. Budget for 1926-27 there was a further remission of Rs. 125 lakhs in favour of the provinces mentioned above. In 1927-28 the entire amount of the outstanding contribution was remitted and finally relinquished in 1928-29.

Sc. 12. Meston settlements :—its merits and demerits.

The payment of provincial contribution was matter of necessity.

The Meston settlement has rendered a great service to the Central Government by suggesting a method whereby the deficit in the central budget can be made up by the payment of Provincial contribution. The allocation of separate sources of revenue to the provinces was responsible for this deficit budget and the Meston committee could not devise any other way of adjusting the income to the expenditure except by the payment of certain amount of contribution by the Provincial Governments. The Com-

mittee suggested an equitable standard of provincial contribution inasmuch as it recommended that the contribution should be proportionate to the 'additional spending power' which the redistribution of sources of revenue brought to the provinces. The Meston Committee also determined the fixed proportion of the future deficit which would be realised from the provinces in the suceeding years of deficit budget; the rate of provincial contribution put undue pressure upon the finances of some of the provinces. The redistribution of resources accompanied with the payment of provincial contribution improved no doubt the position of an agricultural province like the Punjab but the provinces like Bombay and Bengal with considerable industries were not placed in a favourable position. This payment of provincial contribution necessitated retrenchment of public expenditure with the result that the provinces could not work the dyarchical Government satisfactorily. Sometimes the provinces had to impose additional taxation in order to meet the necessary expenses of the Government. This system of Provincial contribution was devised as a temporary measure and the Central Government was asked by the Meston Committee to economise its expenditure for the ultimate remission of contribution. The settlement of Provincial contribution so far as Bengal was concerned could not be given effect to because the financial position of Bengal was the worst during that time. Bengal, therefore, was favoured with a remission for a period of three years.

The remission of Provincial contribution in favour of Bengal.

Sc. 13. The additional powers of the Provinces.

The Power of taxation and borrowing.

We have already seen that the allocation of seperate sources of revenue to the provinces has given them some amount of financial autonomy. The Government of India has further extended

this autonomy by recognising the powers of the provincial governments to borrow money and to impose certain specific kinds of taxes. Formerly the Provincial Governments had not the privilege of imposing taxes but the administration of the provinces suffered greatly on account of want of adequate funds. Hence it became necessary to recognise this power on the part of the Provincial Governments. At present the Provincial Governments can without the permission of the Central Government impose taxes and fees of certain descriptions such as taxes on succession, adverments, registration and amusements. The Provincial Governments have also been given the right to borrow money when necessary on the security of their revenues.

Sc. 13(a). The present system of division, how far equitable ?

We have already seen that Montague Chelmsford Reform was introduced with a view to secure Provincial finance autonomy and to reduce to a minimum the interference of the Central Government in provincial matters. The reform was based on the theory of complete federal separation but it was defective on the following grounds :—

Defects of the present system.

(i) A complete and clearcut division between the central finance and provincial finance was neither possible nor desirable. (ii) The sources of revenue that were allocated to the provinces were inelastic and incapable of expansion. The central government on the other hand, had the most productive sources of revenue. (iii) Inadequate funds which the provinces could derive from their sources of revenue were not sufficient to meet the expenses of the nation-building departments which were placed in their charge. (iv) The reforms no doubt increased the spending power

of the provinces but created an inequality in their financial conditions—an inequality which was accentuated by the abolition of provincial contribution. (v) The residuary powers of taxation were vested in the hands of the central government while the provinces could only impose the scheduled taxes.

Sc. 13(b). The Simon Commission ; the Layton Scheme.

The Simon Commission emphasized evils that followed from the adoption of theoritical ideal of federal finance and made certain recommendations to improve the financial position of the provinces. Sir Walter Layton, the Financial Assessor of the Simon Commission was of opinion that the present central sources of revenue would surely yield a decent surplus at the end of ten years. This would make possible a re-allocation of revenues. He suggested a reduction of the import duty on foreign liquor so that the provinces might impose further excise duty upon it. Two other suggestions made by Sir Walter Layton were (i) distribution of the proceeds of the salt duty among the provinces on a per capita basis and (ii) assignment of one-half of the proceeds of the incometax to the provinces. This re-allocation would not remove the grievances of the provinces. He therefore, suggested several new taxes which the provinces would be at liberty to impose. These included (i) incometax on agricultural incomes, (ii Terminal taxes, (iii) Provincial surcharge on incometax iv) new excises on matches and cigarettes which together with the proceeds of the salt duty would go to constitute a Provincial fund to be distributed among the provinces on a per capita basis.

Suggestions for reallocation of revenues

This scheme of reform is to be commended in so far as it gives a death blow to the nation

hitherto entertained that it is impossible to secure provincial autonomy without a clear-cut separation of revenue. Although suggestions in connection with the re-allocation of revenue and the imposition of additional taxes have given rise to public criticism the scheme gives us a rough idea of the possible lines of reform.

Sc. 14. Home charges.

The definition.

The total contributions that India has to make to England annually consitute Home charges. The payment is to be made by India partly on account of her political relation and partly on account of her economic relation with Great Britain. Let us consider the various items that enter into the Home charges.

The table given below will include the various items of expenditure that constitute India's Home charges:—

		In crores of rupees 1923-24.
(1)	Public debts, both productive and unproductive incurred in England,—the interest, annuities and Sinking Fund	31·69
(2)	Stores purchased in England on behalf of the Government of India and charged against Indian Revenue ...	3·77
(3)	Expenditure with regard to Military and Naval Department ...	14·27
(4)	Expenditure for the Civil Departments in India	2
(5)	Cost of the India office and High Commissioner's office	·3
(6)	Furlough and Pensions	2·67
(7)	Miscellaneous	·44
		45·14

From the above table it is clear that the Home charges amount to a little over 45 crores of rupees. Some of the items of expenditure included within Home charges such as (1) Public debts and (2) stores purchased represent to some extent the economic relation that happens to exist between India and England. This expenditure on account of economic relation comprises about two-thirds of the annual contribution and the remaining one-third is the price for India's political relation with England.

Economic and political aspect.

Sc. 15. The Home Charges whether a drain.

There is a difference of opinion as to whether the whole of Home charges constitute a drain In order that a proper of solution of the problem may be possible it is necessary to know what is meant by the term 'drain'. It means that portion of India's debt for which in that yearshe receives no material equivalent in goods or money. The drain therefore can be represented by the total excess of exports over import. India has to export more than she imports because she is a debtor country and has to pay the interest and annuities every year by exporting goods to England. The actual excess of exports is kept at a lower level because India is found to increase her import trade by borrowing money in England. Let us now see whether India gets any return for the payment that she makes to England. If we study the different items that enter into Home charges critically we will at once come to learn that considerable amount of money paid as Home charges represent the interest on capital that has been borrowed by India for productive and unproductive purposes. India borrows money in England because London is the cheap money market of the world and derives huge amount of profit by investing the amount of capital borrowed for productive pur-

What is drain.

The returns which India gets for this payment.

poses. India has to pay a very low rate of interest and in return she enjoys the enormous profits that investment in Railways and in other productive enterprises will yield. Therefore this part of the payment cannot be termed as drain.

Again for the payment of the prices of stores purchased by the Secretary of State on behalf of India she certainly gets some returns. She pays for the stores that are imported into India in the same way as the ordinary importer will pay for his own imports. The stores are purchased in England because they can be procured there at a cheaper price; but sometimes stores are purchased in England though they can be conveniently purchased in India. This is done with a view to help the British industries. The Government has begun to purchase some stores in India in accordance with the recommendation of the Industrial Commission. Therefore this item of foreign payment does not constitute drain only in so far as stores are purchased in England because they can be procured there at cheaper prices. The two items mentioned above cover as large a portion as $\frac{2}{3}$ of the total Home charges. The remaining portion of the Home charges may be roughly termed as the political drain.

What constitutes political drain.

The expenses on account of the Military and the Naval Department which cover about Rs. 15 crores every year may be termed as drain because India derives little or no benefit from such defensive measures. Again the expenditure on this item can be reduced to a large extent if the European officers and soldiers are substituted by the Indian staff.

The huge salaries that are paid to the European staff.

The expenditure on account of the Civil Department and on account of the offices of the Secretary of State and of the High Commissioner represents another instance of the political drain. Europeans are employed to occupy the posts of responsibility and the salaries that are paid to

them are several time as high as that paid to the Indian officers. We however do not deny the fact that the European officers render some services to the country but what we mean to say is that the services rendered by them are not proportionate to the high salaries that are paid to them. Thus there is an element of drain so far as this part of the expenditure is concerned. Thus from the consideration of the various items of Home charges we come to this conclusion that whole of Home charges does not constitute a drain but there are certain expenditure which includes an element of drain. This drain is generally due to the political relation that India has with England.

Sc. 16. How Home charges are paid !

The sale of Council bills by the Secretary of State.

The Home charges are paid out of the revenues of the Government of India. In the central budget provision is made every year for considerable amount of money which is necessary for the discharge of India's obligation to England; this provision is made in term of rupees but the Home charges are to be paid in terms of sterling. Hence the question arises as to the method of making such payment. India cannot make payment by remitting the amount of rupees that the Government has in its treasury on account of Home charges because England has nothing to do with these silver tokens. The Home charges were formerly paid out of the proceeds of the sale of Council bills. The Secretary of State used to sell Council bills when the exchange value of the rupee reached the specie-importing point and out of the sale proceeds paid the required amount of sterling obligation. Some times the condition of the exchange rate did not permit him to sell Council bills and under such state of things payment of Home charges was made by withdrawing money from the Gold Standard Reserve Fund and the Paper Currency Reserve Funds.

The method of making payment by the sale of Council bills had important effects on the exchange rate. In order to maintain the exchange rate the Secretary of State began for a period of time to sell council bills in response to demands of trade, thus Home charges were met through the operation of trade and commerce. This method of making payments has however been substituted by another method. This consists in making remittance by the purchase of sterling in the open market in India. This method has been adopted inasmuch as it helps the Government to regulate the rate of exchange with greater efficiency. The Hilton Young Commission recommended that this remittance business of the Government should be made over to the Reserve Bank when it would come into existence and that the Bank should be given the freedom to employ such method or methods as it might find most convenient and conducive to the smooth running of the financial machine.

The Home charges are paid by purchase of Sterling in the open market.

Sc. 17. Finance of the Local Self-Government.

The Local Self-Government consists of the following classes of organisation viz. The District Board, the Municipalities, Local Boards and the Port trust. These public bodies have been entrusted with the administration of the local areas under their control and have been authorised to derive their revenue from certain sources. The number of municipalities is increasing every year. In 1925-26 there were 767 Municipalities in British India with nearly 19,000,000 residents within their limits and an agregate income of Rs. 16·20 crores. The Municipal functions relate mainly to public health, safety, convenience and instruction. The Municipalities have certain sources of revenue which include taxes and rates of various description. Certain amount of income is derived from the proceeds of the municipal property, tolls

The development of local Self-Govt. Municipalities and their function.

from roads and ferries and incidental receipts from the markets that exist within the municipal areas. The amount of revenue so accumulated is supplemented by grant from the Government.

The Municipalities spend their revenue in improving the conditions of roads within municipal areas and in making proper arrangement for education and sanitation of the locality. The Municipalities include only ten per cent. of the total population of India and hence they are not in a position to play an important part in the organisation of Local Self-Government in India A greater importance may be attached to the constitution and organisation of District Boards and Local Boards which serve as rural municipalities. Almost every district of British India has such organisation. In 1925-26 there were as many as 1269 District Boards and their receipts amounted to about Rs. 14 crores. The District Boards are entrusted to perform the same functions as the Municipalities are entitled to perform in the towns. Their chief source of revenue is the Public Works Cess which is collected with the land revenue. They have several other sources of revenue such as receipts from educational and medical institutions, from ferries and cattle pounds. These local bodies have been given certain powers of taxation but their power is strictly controlled by the Scheduled Taxes Rules which provide for tolls, taxes on land and land values, taxes on buildings, on vehicles or boats, on animals, menials and domestic sevants octroi duties and terminal taxes and similar other taxes. The revenue thus derived from the various sources is supplemented by the grants made by the Government for specific purposes. The revenue of the District Boards is spent on the following heads viz. (1) roads (construction and improvement, (2) Primary Schools, (3) Charitable dispen

The District Boards and their functions.

sary, (4) Drainage, (5) Water-supply, (6) Markets, (7) Conservancy and (8) Miscellaneous.

These important functions of the local bodies cannot be discharged satisfactory for want of adequate funds. The Taxation Enquiry committee appreciated this difficulty and made certain recommendations for additional sources of reveuue.

The Port Trusts.

Next we come to the Port trust. These organisations exist for the administration of ports that exist in India. They are known as Port commissioners. They have been vested with certain rights and charged with certain responsibilities. The revenue is derived by certain fees charged for services rendered as well as by the imposition of certain rates on shipping and goods. They spend the revenue in making provision for suitable dock accommodation and for other conveniences.

Union Boards.

Besides the above Self-Governing institutions mentioned above several other similar organisations have manifested themselves in the villages. These are the Union Boards and the Panchayat, Committees which owe their origin to the passing of the village Self-Government Act.

Questions and Answers.

1. What are the Home charges. Briefly describe the method by which payments are made by this country to England. (C. U. 1909-10, 1912, 1920.) See Secs. 14 and 16.

2. Analyse the sources of Indian Revenue and write a full note on the revenue from opium. (C. U. 1909.) See Secs. 7, 7(4a.)

3. Write a short note on salt tax. (C. U. 1909-10.) See Secs. 7, 8.

4. Write a short note on opium revenue. (C. U. 1911.) See Sec. 7(4a).

5. Give an account of India's public debts. (C. U. 1912-25.) See Sec. 10.

6. What do the Home charges consist of ? How much of them represents interest on capital invested in India ? Do the Secretary of State's drawings exactly correspond with the net exports of India's merchandise and treasure. (C. U. 1913-14.) See Secs. 14 and 16.

7. Explain how the Home charges are met through the operations of trade and commerce. (C. U. 1914.) See Sec. 16.

8. Write notes on the following:—(1) The Salt tax, (2) The Income tax. (C. U. 1919.) See Sec. 7, 8(a), (5).

9. Distinguish between direct and indirect taxes. Discuss their respective merits and give an account of the direct taxes levied in India. (C. U. 1927). See Sec. 5.

10. Write notes on the following:—

(a) The seperation of the Indian Railway Finance from the General Finance. See Sec. 7(3).

(b) The merits and demerits of the Meston Settlement. (C. U. 1927.) See Secs. 11 and 12.

11. Give a historical account of the opium policy of the Government of India. Is the present policy of the Government open of serious criticism. (C. U. 1928). See Sec. 7(4a).

12. What are the grounds on which revision of the Meston Settlement is necessary from the point of view of Bengal (C. U. 1928.) See Sec. 12.

13. Examine critically the main provision of the Income Tax Act of 1922; and explain its significance in the development of Indian Fiscal system. (C. U. 1928.) See Sec. 7(5).

14. Classify the public debt of India. How far do you think our debt position is economically sound. (C. U 1929). See Sec. 10.

15. Discuss the relative advantages of loans and taxes as methods of raising revenue. Illustrate your answer with reference to Indian condition. (C. U. 1930). See Sec. 10.

APPENDIX A.

Summary of Reports and Recommendations.

A brief Summary of the report of the Fiscal Commission.

This commission was appointed by the Government in October 1921 "to examine with reference to all the interests concerned the tariff policy of the Government of India, including the question of desirability of adopting the principle of Imperial Preference and to make recommendations".

The commission studied the conditions of Indian industries and came to the conclusion that the industrial development has not been adequate and efforts should be made to develop the Indian industries. In order that such development may be possible the Government should adopt the policy of discriminating protection. In protecting the industries care should be taken to make the burden on the community due to the imposition of protective duty as light as would be consistent with the development of industries.

The commission recommended the establishment of a Tariff Board which would act as an Advisory Council and should consider the claims of different industries for protection. If the Board is satisfied that the industry really deserves protection it should advise the Government to that effect. The Commission laid down certain principles for the guidance of the Board while recommending for protection. These are three in number:—

(a) The industry claiming for protection must possess natural advantages; (b) that protection is urgently necessary, otherwise the industry will fail, (c) that industry would in the long run be able to face foreign competition without protection. The industries that can satisfy the conditions laid down above are entitled to protection.

The commission recommended that industries which should be developed for the national safety should be protected provided the conditions for their development are not unfavourable.

The import duty should not be imposed on raw materials and machinery because the imposition of such duty would hamper the progress of Indian industries.

The export duty may be imposed for purely revenue purposes but such duty should never be imposed for protective purposes because in that case the domestic producers will be seriously affected. The export duty may be imposed on food stuff for temporary period with a view to check the abnormal rise in the price of foodstuffs.

When it is found that the importation of certain dumped goods is detrimental to Indian industries care should be taken to impose dumping duties with the object of protecting those industries.

The commission strongly condemned the imposition of Cotton Excise duty because such duty hampered the progress of the cotton industries. It recommended that the Parliament should confer upon the Legislature of India full power of regulating her excise policy solely with reference to her own interest. The Commission recommended the abolition of import duties on coal and machinery and of the export duty on hide and tea.

The question of desirability of adopting the principle of Imperial Preference was referred to the Commission for examination and recommendation. The Committee examined the scheme and made the following recommendations :—

(1) It is not desirable that India should adopt the general preferential policy.

(2) That preference may be given to certain commodities only under the following conditions :—

(a) that the approval of the Legislature should be taken before such preference is given.

(b) that no preference should in any way diminish the protection required by Indian industries.

(c) that the preference should not cause any greater economic loss to the country when the loss has been compared with the gain that will follow from preference granted by the United Kingdom.

The Commission recommended that preferential treatment should be accorded to British industries whenever it is possible to accord such treatment; that such preference should be granted as a free gift but no preference should be granted to any other country included within the British Empire except on the principle of reciprocity.

With regard to the importation of foreign capital in India the committee opined that India could not go on without foreign capital hence no obstacle should be placed upon the importation of such capital; but the commission recommended that the Government should favour with monopolies and other concessions those companies which were incorporated with rupee capital and which would have Indian Directors and would afford facilities for the training of Indian apprentices.

The commission emphatically deprecated the system of double tariffs and the employment of tariff as an instrument for aggression on retaliation.

An attempt should be made for the promotion of Indian industries by making suitable arrangement for the primary education and for the training of the apprentices.

Again, care should be taken to remove the difficulties that are occasioned by the shipping rebates, by the importation of dumped and bounty-fed goods and by depreciated exchange.

The above recommendations were signed by all the members subject to a minute of dissent by five members. The minority of the members who signed this minute of dissent considered the policy of discriminating protection and the conditions which should govern such policy as too stringent and recommended that the fiscal policy best suited for India is protection and that if any discrimination should become necessary for the protection of the interest of the consumer the question should be fully determined by the Government of India and the Indian Legislature.

The minority of the members were in favour of the imposition of an excise duty on commodities the consumption of which is detrimental to the health and strength of the population because such excise duty will raise the price and reduce the consumption of such articles.

As regards the desirability of the adoption of the Imperial Preferential scheme the minority of the members recommended that India could not adopt the scheme of Imperial Preference unless she had been favoured with the responsible form of Government and unless she was able to regulate her own tariff policy by the vote of a wholly elected legislature. Again, no preference should be granted to the self-governing colonies unless they agreed to favour India with similar preference and recognised the rights of the Indian people living in the dominions to a state of complete equality.

As regards the importation of foreign capital the minority of the members recommended that those companies should alone be protected by the imposition of protective duties which were incorporated in India with rupee capital and which had reasonable proportion of Indian directors and at the same time afforded opportunities for the training of Indian apprentices.

The minority of the commission made certain recommendation in connection with the constitution of the New Tariff Board.

APPENDIX-B.

A brief Summary of the Industrial Commission's Report.

The recommendations of the Industrial Commission are based upon the following two principles viz :—(1) That the Government of India which kept itself aloof from the industrial sphere must play an active part in the industrial development of the country with the aim of making India a self-sufficient unit (2) that it is impossible for the Government to play that active part unless provided with adequate administrative equipment and forearmed with reliable, scientific and technical advice.

The commission recommends the creation of administrative machinery in the following manner :—

(1) That an Imperial department of Industries should be creeted. This department should be under the control of a member of the

Viceroy's Executive Council who will be assisted by a Board of three members. The department so created should be vested with the responsibility of formulating sound industrial policy and should carry out uniform programme for the industrial development of the whole of British India. In order that these functions may be successfully performed the department would require the assistance of mechanical engineers ; hence provision must be made for the appointment of an efficient staff. The Committee also suggested the formation of an Imperial Industrial Service so that the difficulties incidental to the casual recruiting of officers may be avoided.

(2) The actual administrative work should devolve on the Provincial Governments. In each Province there should be a Department of Industry which should be administered by a Director of Industries assisted by specialists and technical advisers who should be usually recruited under the Indian Imperial Service. The Director should also receive instructions from the Provincial Board of Industries consisting mainly of non-official members. Thus aided by the specialists in industries and by the Board mentioned above the Provincial Directors will be in a position to foster the growth of the industries in the best possible ways.

The Commission gives in the first few Chapters an account of the industrial backwardness of India. The bulk of the population depend upon agriculture for subsistence and they do not even care to increase the return from land by up-to-date methods of cultivation. The march of modern industry has produced little or no effect upon their economic conditions. The progress that is to be found in the rural areas has been the outcome of economic rather than industrial revolution.

This deficiency in industrial development has been mainly due to the low standard of living of the people and the inefficiency of the Indian labourers. Again the inadequacy of the supply of capital and the shyness of the Indian capitalists are other causes of India's industrial backwardness. The capitalists of India are less enterprising and for that reason can not take risks boldly. They will invest their money in those commercial and industrial undertakings in which the chance of profit is very great. India has to import large quantities of manufactured articles from foreign countries and has to part with its agricultural products in paying the value of her valuable imports. This economic dependence has

serious consequences on the material progress of the country and the situation becomes precarious in times of war when the supply of these articles is reduced considerably.

India, however, has great possibility for success in the industrial sphere. This is shewn by the fact that India has a large supply of raw materials. The foreign countries that have flourished in the industrial sphere depend greatly upon India for the supply of raw materials but India remains idle and depends upon foreigners for the supply of manufactured articles which are urgently required by her people. The economic position of India can be improved if care is taken to remove those obstacles that stand on the way of her industrial success. The first step that should be taken in this direction is to improve the condition of labour supply. India has a large supply of inefficient labour and this supply can be increased by the utilisation of labour-saving machinery in agriculture. The Commission mentions three important causes of the inefficiency of Indian labour. These are (1) absence of education amongst Indian artisans, (2) their low standard of comfort and (3) their poor health. The Commission makes distinct recommendation for the removal of each of the three evils mentioned above.

For the removal of the first evil the Commission recommends that the Government should take immediate steps to make arrangement for the spread of universal primary education ; but the spread of primary education alone cannot make the labourers efficient. Attempt should also be made to make adequate provision for the technical education of the labourers. The method of training should not be same in all cases. For the training of workers in cottage industries the commission recommends that the Government should make provision for the establishment of industrial schools supervised by head masters with practical knowledge of the industries taught and controlled by the Departments of industries. The best method of training the workers in organised industries should as the Commission suggests, consist of a system of organised apprenticeship for a period of four or five years with practical training in the workshop and theoretical instructions in attached teaching institutions.

The next suggestion of the commission has reference to the improvement of standard of comfort. The industrial workers have to live in insanitary bustis and this insanitary condition of the dwelling houses tells upon their health and strength. Efforts should be

made for improving the dwelling houses of the industrial workers. The Government is advised to make use of its powers under the Land Acquisition Act to acquire lands and to lease out the land so acquired on better terms. The Commission appreciates the miserable conditions of the industrial labourers of Bombay and makes special recommendation for the improvement of their dwelling houses. The suggestion is made for general measures of welfare-work among factory labourers.

The Commission makes recommendation for the improvement of public health by prosecuting campaigns against such diseases as Hookworm and Malaria.

Some suggestions have also been made by the Commission to remove the general aversion of the educated Indians towards industrial pursuits. A complete revolution should be brought about in the method of industrial training so that the Indians will take interest in industrial enterprises. For the manipulative industries the method of training should be similar to that prescribed for training artisans. The Indians desirous of occupying the posts of foremen or engineers must serve a term of apprenticeship in the workshop. After this period of apprenticeship is over their practical training should be supplemented by theoretical instruction. When the course of theoretical instruction is complete they should be allowed to specialise in particular subject. In case of non-manipulative industries the training should be imparted mainly through teaching institutions. The Commission also recommends the establishment, in future, of two Imperial Colleges, one for engineering and the other for metallurgy. The Department of Industry should be vested with a power of general control over technical institution in order that the intimate relation between the technical institutions and the world of industry may be maintained.

The Commission deals with the question of the supply of motive power which is an essential ingredient in industrial success. A study of the character and quality of Indian coal shows that Indian coal is inferior to coal of other countries in quality. Again the extension of the metallurgical industry already started will reduce the supply of coal for industrial purposes to a very great extent. We cannot attach much importance to the oil-fields of Burma in as much as they are being rapidly exploited. The Wind power can not be taken recourse to because it is too intermittent for the purpose.

The commission suggests in the long run that greater importance is to be attached to the water power and this can be depended upon as a more reliable source of energy specially with a view to the development of thermo-electric industries. A duty is therefore thrown upon the Government to undertake a hydrographic survey in order to determine the places which offer greater opportunities for the establishment of hydro-electric installation.

The Government has been advised to give up its *Laissez faire* policy and take an active part in the improvement of Indian Industries. There should be a reorganisation of the scattered scientific services in the provinces under the Imperial Services. The Government in this way will be in a position to estimate correctly the value of industrial proposition. Rules should be framed regulating the relations between the members of these Imperial services and the private industrialists requiring advice from them,

The commission appreciates the utility of up-to-date information on commerce and industries and suggests a scheme for the collection and publication of those information through the Department of Industry. A proposal has also been made for making over the task of purchasing Government stores to the Department of Industry so that it may be possible for the Department to see that orders are not placed with the stores Department, India office, unless the stores are not available in India. The commission speaks about the advisability of acquiring lands by the Government for industrial purposes and indicates the method by which the Government may render assistance to the industries. The Government should, according to the opinion of the commission, undertake the manufacturing operation for the production of lethal munitions. The administration of the Boiler Acts, the mining rules, the Electricity Acts, employment of jail-labour, prevention of adulteration and some other important matters are discussed thoroughly.

The commission is of opinion that the compulsory registration of partnerships is practicable and the Government should examine the problem in order that laws may be passed regulating such business.

The commission discusses the difficulties that hamper the progress of the cottage industries and suggests industrial co-operation

as a remedy. It is by means of co-operative organisations that the cottage-industrialists and the small scale produces will be in a position to reap some of the advantages that are derived by a large-scale producer. The commission recommends an increase in the Railway rates for raw materials as they are conveyed to the ports for the purpose of exportation because this will have the effect of restricting the exports and increasing the supply of raw materials for the indigenous industries. Again, the railway rates on imports other than machinery and stores for industrial uses should be raised because such a policy would raise the prices of foreign commodities to the advantage of the domestic industries. A commerce member should be added to the Railway Board for the better representation of the interest of commerce and industry at the Railway conference. A suggestion is also made for the improvement of water-ways and the constitution of a water-ways trust at Calcutta.

The commission correctly realises the shyness of Indian capitalists and suggests that the proper remedy will be the extension of banking facilities in the mofussil so that the people of India may appreciate the utility of making investments of their humble stock of capital. A committee should be appointed to consider fully the problem of industrial banking; but in the meantime the middleclass industrialists should be favoured with credit on the guarantee of the Government. Among other methods of financial assistance it has been suggested that the cottage industries should be provided with plants on the hire-purchase system.

The position of India may be summed up in the following manner :—

(1) India has a large stock of raw materials and in consequence has a great prospect of industrial success.

(2) There is lack of industrialisation and for this reason India is subject to foreign penetration in times of peace and serious dangers in times of war.

(3) The human agents of production are inefficient and the capitalists are too shy to take risk boldly.

(4) The intelligentsia have not yet developed a right tradition of industrialism.

(5) The Government should play an active part in developing the industries.

APPENDIX C.

A brief summary of the report of the Economic Enquiry Committee

The Committee was appointed with Sir Visvesvaraya as chairman to examine the materials at present available for framing an estimate of the economic conditions of various classes of the people of British India, to report on its adequacy and to make recommendation as to the best manner in which it may be supplemented and as to lines on which general economic survey should be carried out with an estimate of the expenditure involved in giving effect to such recommendation.

The Committee divides the materials that are available at present and may enable us to study the economic conditions into three classes, viz., (*a*) General statistics other than production, (*b*) Statistics of production, (*c*) estimate of income. Of these data the first may be said to be roughly complete, the second is partially complete and the third is unsatisfactory.

The Committee emphatically recommends an improvement in the general statistics other than production so as to make it as complete and accurate as the statistical system of other countries. The statistics of production should be framed with great care and caution. Care should be taken to include within the statistics of agricultural production, the value of such production and the same procedure should be adopted in the collection of data relating to the production from forests, fisheries and other industries. The Department of mining and industry should be directed to frame an annual statistics of the mineral and industrial production including values thereof.

The economic conditions of the people cannot be properly determined unless enquiry is made into their income and wealth. An enquiry into the cost of living and the indebtedness of the people is also necessary. The Committee, therefore, recommends that the income tax returns and wages and 'the rates of wages prevailing at different centres should be published. The collection of wholesale and retail prices is also suggested because it may possibly give us an idea of the cost of living.

The Committee suggests the method of economic survey: Suggestion is also made of a double classification based on occupation and income. Care should be taken in collecting the figures of production through the Departments of the Government. The total value of such production should be determined and recorded. The Departments of mining and industries should be held responsible for the collection of satistical figures relating to the mineral and industrial products including values thereof and the rates of wages prevailing in those centres. The same responsibility will be cast upon the Revenue Department for the collection of rural wages and prices.

The Committee recommends the centralisation and co-ordination of all statistical work and proposes the establishment of a Central Satisfical Bureau to be presided over by a Director of Statistics. Under this Central Department there should be a Provincial Department in each province supervised by a Provincial statistician. There should be created district agencies and local agencies for facilitating the collection and compilation of statistics.

The Commission estimates the expenditure that will be incurred both by the Central Government and by the Provincial Government in giving effect to the above recommendations and directs that the Central Government should bear half of the Provincial expenditure for a period of five years.

A minute of dissent has been submitted by A. R. Burnet Hurst regarding the following points :—

It is useless to enquire into the wealth and income of individual family.

The problem of unemployment among the middle classes and the influence of diseases on the health of the population should be the subject matter of special enquiry.

The rates of wages and hours of labour should be secured quarterly from the factories. The Department of statistics should be reconstituted and the Labour Office, Bombay should be expanded. A suggestion is made for the publication of an Official Year Book from British India by the Central Bureau.

APPENDIX D.

A brief Summary of the report of the Royal Commission on Indian Currency and Finance (1913-14).

The Committee was appointed to enquire into the conditions of Indian Currency system and to suggest schemes for reforms.

The Committee is in favour of the continuance of the Gold-Exchange Standard which necessitates the establishment of stable rate of exchange between silver rupee and the sterling. The measures taken up by the Government to maintain the rate of exchange during Currency Crisis of 1907-8 yielded satisfactory results.

The Commission has no faith in the increased circulation of gold in India as recommended by the Currency Commission of 1898. The gold standard system can be maintained without the actual use of gold. The economic condition of India does not permit the use of gold coins nor should it be to the advantage of a poor country like India to encourage the use of gold in internal circulation. The best Currency system for this poor country will be that which encourages the use of rupee and rupee-notes in the internal circulation. It is not at all necessary to establish a mint for the coinage of gold but the Committee adds that there is no objection against the establishment of such mint if the Indian sentiment genuinely demands it and the Government of India is ready to bear the incidental expenses of such mint. If such mint is not established the Bombay mint should be authorised to receive refined gold in exchange for local currency.

In order that the exchange value of the rupee with reference to sterling may be maintained an adequate reserve in gold or sterling should be preserved. There should be at present no limit to the Gold standard Reserve. Attempt should be made to increase the gold portion of the Reserve. The gold portion can at once be increased to the extent of £10 millions by the mutual exchange of assets between the Gold Standard Reserve

and the Paper Currency Reserve. In this way the gold portion should be raised to £ 15 millions and after this the authority should attempt to keep one-half of the total reserve in gold.

The Commission recommends the abolition of the rupee portion of the gold standard reserve and the transfer of the rupees to the Paper currency Reserve in exchange for gold. The entire Gold Standard Reserve should be kept in London.

The Reverse Councils should be sold by the Government whenever there is demand for them, at the fixed rate 1*s.* $3\frac{29}{32}$*d.* per rupee.

Suggestions are made for making the system of note-issue more elastic. This can be easily done by increasing the fiduciary portion of the note-issue. The Committee recommends that the fiduciary portion should be raised from Rs. 14 crores to Rs. 20 crores and thereafter it should be fixed at a maximum of the amount of notes held by the Government in the Reserve Treasuries plus one-third of the net circulation and the Government should be empowered to make temporary investments or loans from the fiduciary portion within the maximum in London and in India. The Committee also recommends the immediate universalisation of the 500 rupee note and the increase of facilities for the encashment of notes. The balances of the government both in India and in London have been unusally large in recent years on account of exceptional prosperity of India and other accidental causes.

A suggestion is made for changing the date of the commencement of financial year from the 1st of April to 1st November or 1st January because such change will make it possible for the Government to frame the budget with greater accuracy and for the India office to fix the amount of borrowing in London with closer regard to immediate needs.

The Commission supports the policy of transferring revenue surplus to London in order to reduce or avoid fresh borrowing for capital expenditure.

The independent treasury system is condemned by the commission which attributes the stringency of the money market to such pernicious system. A recommendation is made for granting loans on good security to the Presidency Banks out of the surplus balances.

retained by the Government. The question whether the surplus balance should be transferred to the India Office or should be utilised in lending operation in India should be decided by means of a consultation between the Secretary of State and the Government of India.

The Committee recommends that the rupee loans of the Government should be increased as much as possible and that the existing regulation in regard to the endorsement on rupee paper should be relaxed. Now forms of securities should also be created.

The Secretary of State sells Council bills in order to provide himself with funds in London for meeting expenses of the Government of India there. Sometimes the Council bills have been sold at low rates even when there was no deficit in the London balance. The Committee does not intend to place any restriction on the power of the Secretary of State to sell council bills either as to the amount of the drafts sold or as to the rate at which they should be sold provided the rate is within the gold point.

The Committee supports the practice of lending out the surplus balances at the India Office to the approved borrowers for a short period of time and does not find any reason for the criticism that has been advanced by the critics regarding the placing on deposit with certain banks a part of the balance at a time when it was too large to be placed entirely with approved borrowers. The Committee advises the Secretary of State to avoid such criticism as far as possible.

The Committee thinks that the time has arrived when the relation of the India Office with the Bank of England should be reviewed.

The Committee entertains a favourable opinion as to the service rendered by the permanent staff both in India and in London in handling the complicated financial problem and recommends the continuance of a Finance Committee of Council containing three members with Financial experience representing—

(1) Indian Official Finance.
(2) Indian banking and Commerce.
(3) The London money market.

The Committee recognises the advantages of the present arrangement in which there is Assistant Under Secretary of State with Financial experience and recommends for the future that there should be one Under Secretary with Financial experience as at present or (2) there should be two Assistant Under Secretaries of whom one should have official experience.

The Committee does not recommend the establishment of State or Central Bank and leaves the problem to the consideration of an expert Committee to be appointed for the purpose.

APPENDIX E.

A brief Summary of the report of the Committee on Indian Exchange and Currency. (1920),

The Committee was appointed after the Great War was over with a view to suggest schemes whereby the automatic working of the Currency system might be re-established. The Gold Exchange standard broke down during the war because the Government failed to maintain the exchange rate. Various proposals such as that for reducing the fineness or weight of the rupee, for the issue of 2 or 3 rupee coin of lower proportional silver content than the present rupee and for the issue of nickel rupee were referred to the committee for consideration. The committee, however, could not recommend any of the these schemes but it appreciated the necessity of restoring stability to the rupee and of re-establishing the automatic working of the Indian Currency system. The committee was in favour of the free circulation of 8 anna nickel coin and suggested that legal tender limit should be raised from Re. 1 to Rs. 5 or Rs. 10,

The Paper Currency system should be made more elastic but at the same time care should be taken to keep adequate reserve for ensuring the convertibility of note-issue.

The rise in the exchange value of the rupee had been to the advantage of the country as a whole in so far as it checked the rise in Indian prices and reduced the obligation of the Government of India to pay Home charges. The stabilisation of the exchange rate at a high level, would not, as the committee opined, cause any permanent injury to the traders and industrialists. It was not advisable to postpone the stabilisation of the exchange rate and the balance of advantage was decidedly in favour of stabilisation. The question then arose as to the rate at which the Indian Exchange should be stabilished. The Committee proposed that Exchange rate should be stabilised at 2s (gold). Suggestions were made of certain measures which should be adopted by the Government in case the value of silver rose for more than a brief poriod above the parity of 2s (gold). The measures suggested were (a) reduction of sale of Councils bills, (b) abstension from purchase of silver, (c) use of gold to meet demands for metallic Currency.

Ordinarily the Council bills were sold for providing the Secretary of State with necessary funds for the payment of Home charges. The Committee suggested that there could possibly be no objection against, the sale of Council bills in response to demands of trade provided the Secretary of State felt no inconvenience in so selling the bills in excess of his demand and due regard could be paid to principles governing the location of the reserves.

The Government of India should be given the authority of selling Reverse Councils during periods of exchange weakness at a price based upon the cost of shipping gold from India to London and no permission of the Secretary of State should be required for such sale.

The Commitee was of opinion that the quantity of gold which India absorbed before the war was not very large if we took into consideration the vast population of India and the social customs which forced them to use gold for ornamental purposes. Attempt should be made to encourage to use of gold for productive purposes. The Committee recommended the withdrawal of Governmental control from the import and export of this precious metal to and from India.

The Government should provide the people with any sort of Currency that they demanded whether rupees, notes or gold ; but gold should be principally kept in Government Reserve so that

it might be available during the time of making foreign remittances. Though it was not to the advantage of a poor country like India to encourage the use of gold for internal purposes yet a moderate use of gold would sometimes become necessary in order to meet the increased demand for Currency when silver rupees would not be available in sufficient quantities to satisfy the increased demand.

The Bombay Branch of the Royal Mint should be reopened for the coinage of sovereigns and half sovereigns and the public should be allowed to have their gold bullion turned into coins. The Government should be freed from the responsibility of giving rupees for sovereigns. An opportunity should. however, be given to the public having sovereigns in their possession to present them for redemption at the rate of Rs. 15 per sovereign at the time of introducing the new ratio that was recommended. Similar opportunities should be given to the holders of gold mahar which should be eventually demonetised.

The prohibition on the import of Silver and the import duty levied thereon should be removed but the prohibition on the export of silver from India should continue for a period of time in order to prevent the depletion of silver Curreney by export. Permission under license should however be granted in case the Government ceases to purchase the silver mined in India.

To promote the habit of investment the increased banking facilities and increased opportunities for the investment of savings should be afforded. No recommendation, however, was made for modifying the present practice of regulating the purchase of silver for coinage.

The Committee recommended the introduction of proportional Reserve system in order to make the system of Currency more elastic. The minimum of metallic reserve to be kept against the notes should be 40 per cent. of the gross circulation. With regard to the fiduciary portion of the Reserve the Committee suggested that the securities issued by the Government of India should be limited to Rs. 20 crores. The balance should consist of securities issued by other Governments within British Empire and of these securities not more than 10 crores should have more than one year's maturity and all should be redeemable at a

fixed rate. The remaining securities should be of not more than one year's maturity.

The existing permissive maximum should be retained for a limited period.

The adoption of the new rate of exchange would lead to the depreciation of the sterling investments and gold in the Paper Currency Reserve but the savings resulting from the rise in exchange would help greatly the discharging of this liability in a limited number of years.

In order to remove seasonal stringency in the money market authority should be given to the Currency Department to issue notes up to five crores as loans to the Presidency Banks on the security of export bills of exchange.

The Silver and Gold in the Paper Currency Reserve should be kept in India and every facility should be given for the encashment of notes as soon as the circumstances permitted.

The Committee suggested no limit to the Gold Standard Reserve and the profits of the rupee coinage should be credited in their entirety to the Reserve. The Government should hold such gold as they obtain in the Paper Currency Reserve while the Gold Standard Reserve should consist of securities with earlier dates of maturity. The amount of securities in the reserve with a maturity exceeding three years should not be increased.

Some portion not exceeding one half of the gold in the Gold Standard Reserve should be kept in India while sterling investment should be retained in London.

APPENDIX F.

A brief Summary of the report of the Royal Commission on Indian Currency and Finance (1926).

The Commission was appointed with Eward Hilton Young as its president to examine and report on the Indian exchange and Currency system and practice, to consider whether any modification is desirable in the interests of India, and to make recommendation.

The Committee studied the existing currency system and made the following recommendations :—

(i) The internal currency in circulation should consist of silver rupee and currency notes ; gold should not be allowed to circulate as currency but the stability of the currency in terms of gold should be maintained by making the currency directly convertible into gold.

(ii) In order that monetary stability might be secured the control of Currency and credit should be vested in one institution and this could be possible, as the Commission recommended, if a Central Banking system was introduced.

(iii) The Central Banking functions should be entrusted to the Reserve Bank which was proposed to be established.

(iv) The Commission laid down rules as to the constitution and functions of such Bank.

(v) The provisions of the charter should be so framed as to give effect to the recommendations of the Commission concerning such Bank.

(vi) The balance that would be left after payment of limited dividend and the constitution of suitable reserve funds should be made over to the Government.

(vii) The Bank should like other Central Banks, be given the sole authority of issuing notes for a period of 25 years and the tender characteristic should

be withdrawn from the Government notes within five years from the date of the charter becoming operative ; of course these notes should continue as legal tender in the Government Treasuries.

(viii) The notes issued by the Reserve Bank should be unlimited legal tender and should be guaranteed by the Government. A suggestion was made as to the form of the note that should be issued by the Bank. This form should however be subject to the approval of the Government.

(ix) Upon the Reserve Bank should be thrown an obligation to purchase and sell gold without limit at rates determined with reference to a fixed gold parity of the rupee but in quantities of not less than 400 fine ounces ; no limitation should however be imposed as to the purposes for which gold is required. Gold would therefore be available both for external and internal purposes.

(x) In order that the Bank may not be involved in the performance of a task which does not belong to it to the destruction of wholesale bullion market effort should be made to regulate the sale of gold in such a way that the Bank may be freed from the task of supplying gold for non-monetary purposes. In order to achieve that object the committee proposed to fix the selling prices of gold at rates which would enable the Bank to replenish its stock of gold without loss by importation from London.

(xi) The Committee was against the circulation of gold coins and hence recommended the removal of legal tender quality from sovereigns and half-sovereigns. The Committee did not apprehend any practical inconvenience from this proposal because they owing to the adoption of 2s. rate had already ceased to function as currency. Again, no undesirable consequences would follow from the demonetisation of the sovereign because the relation of the local Currency to gold would be firmly established by making it directly convertible into gold.

(xii) The Government should offer 'on tap' Savings Certificate redeemable in 3 or 5 years in legal tender money or gold at the option of the holder. Such a policy would, as the committee opined, serve as an incentive to investment and a powerful antidote to hoarding and would at the same time impress upon the people the relation between gold and silver rupee.

(xiii) The Government should be freed from the legal responsibility of converting Currency notes into silver coins because the existence of this obligation had in the past the effect of placing the Currency system at the mercy of the price of silver. The Bank should, however, maintain the free exchangeability of different forms of legal tender Currency and the Government should be under an obligation to supply coins to the Bank on demand.

(xiv) The Committee recommended that one-rupee notes should be re-introduced and they should be unlimited legal tender. In this way a more valuable token money would profitably be substituted by paper money.

(xv) Notes of higher denominations should be legally convertible into legal tender money i. e. into notes of smaller denominations or silver rupees at the option of the Currency authority.

(xvi) The rupee should retain its legal tender character.

(xvii) There should be an amalgamation of the Gold standard and the Paper Currency Reserves. The proportions and composition of the combined reserve should be fixed by statute. Such a provision was, as the committee recommended, essential in order to secure the automatic expansion and contraction of the Currency and the compensatory effect of the exchanges in accordance with the needs of the country.

(xviii) The Committee recommended the introduction of proportional reserve system. Gold and gold securities should form not less than 40 per cent. of the Reserve subject to a possible temporary reduction with the consent of the Government on payment of a tax. The Currency authority should however attempt to work to a reserve ratio of from 50 to 60 per cent. The gold portion of the reserve should be raised in view of the obligation of the Currency authority in regard to the provision of gold and the redemption of saving certificate on maturity. The gold portion which stood at 12·8 per cent. should be raised to 20 per cent. as soon as possible and in any case, in not more than 5 years and to 25 percent in 10 years with a minimum of Rs. 30 crores from the outset. One-half at least of this gold holding should be kept in India.

(xix) The silver portion of the Reserve should be substantially reduced during the transitional period of 10 years.

(xx) The balance of the Reserve should be held in self-liquidating trade bills and the securities of the Government of India. Attempt should be made to replace the created securities by marketable securities within 10 years.

(xxi) An arbitrary figure of Rs. 50 crores was fixed as the liability of the Government in respect of the contractibility of the rupee circulation. It was also recommended that an amount equal to one-fifth of the face value of any increase or decrease in the number of silver rupees in issue should be added to or subtracted from this liability and the balance of profit or loss should accrue to or be borne by the Government revenues.

(xxii) The Reserve Bank should have its two departments, the Issue Department and the Banking Department separated from each other.

(xxiii) The remittance transactions of the Government should be made over to the Reserve Bank. The Bank should be informed as to the requirement of the Secretary of State and should be allowed to employ such method or methods as would appear to be conductive to the smooth working of the system.

(xxiv) During the transition period the Government should publish a weekly return of remittances made. A trial should be made of the system of purchase by public tender in India.

(xxv) The Committee made another important recommendation. This consisted in transferring the cash-balances of the Government of India and of the Secretary of State to the Reserve Bank. The banking reserves of the banking institutions should also be kept with the Reserve Bank which would occupy in India a position similar to that occupied in England by the Bank of England.

(xxvi) Such transfer of reserve should take place. not later than 1st January 1929 and the Bank's obligation to buy and sell gold should come into operation not later than 1st January 1931.

(xxvii) The exchange value of the rupee should be stabilised at 1s. 6d.

(xxviii) The stamp duties on bills of exchange and cheques should be abolished.

(xxix) Steps should be taken to develop the banking system of India.

(xxx) Efforts should be made to remedy the deficiency in the existing body of statistical data.

A minute of dissent by Sir Pnrushotamdas Thakurdas. Sir Purushotamadas signed the report subject to the following minute of dissent.

The Government of India has departed from the main principles of the policy laid down 27 years ago, accepted by the Government and still binding on them. Agitation have been made from time to time for the introduction of gold currency in India but the introduction of such currency has been postponed. Sir Purushotamdas is of opinion that the introduction of gold standard is necessary to inspire confidence in India.

Sir Purushotamdas differs from his colleague on two main points, namely on those relating to the formation of the Reserve Bank of India and the stabilisation of the rupee at 1s. 6d. He appreciates the utility of a Central Bank but is in favour of transforming the Imperial Bank of India into a Central Bank. As regards the exchange rate he recommends the stabilisation at 1s. 4d. on the grounds that the greater part of the general adjustment of prices at 1s. 6d. is still to come, that no adjustment in wages has taken place and that until the general adjustment is complete 1s. 6d. rate will give the foreign manufacturer an indirect bounty of $12\frac{1}{2}$ per cent.

APPENDIX G.

A brief Summary of the report of the Royal Commission on Agriculture.

The Royal Commission on Agriculture in India is the first appointed specifically to examine and report on the condition of agriculture and rural economy in India and to suggest ways and means of assisting the advance of rural community towards a fuller life.

The Committee emphasises the utility of Agricultural Research and proposes that Imperial Council of Agricultural Research should be constituted, the primary function of which would be to promote, guide and co-ordinate Agricultural Research throughout India. One of the important functions of the Council will be in regard to the training of research workers and part of its funds should be utilised in the provision of research scholarships tenable by students who have given evidence that they are capable of taking full advantage of the opportunity for intensive training in scientific research in agriculture.

As a link with the Central Research Council there should be established a Provincial Research Committee in each of the major provinces which will work in close co-operation with the Council.

The principal concern of this Commission is to suggest the lines on which Agriculture in India can be improved. The agricultural lands in India vary remarkably in agricultural properties. In some cases soils have deteriorated greatly in fertility. Little progress has been made in introducing manurial treatment into general agricultural practice. The Committee gives an account of the supply of manures in India and points out that the inadequacy of the supply has been responsible for the failure of agricultural industry. The supply of farmyard manure, oil cakes which can be profitably utilised as manures is very insufficient. There are few other kinds of manures such as sulphate of amonia, bones, bonemeal and fish manures but India has not been in a position to apply these manures profitably.

Proper care should be taken for the selection of seeds; for many years to come it seems probable that the work of seed will have to remain in the hands of agricultural Departments but if seed merchants of proved enterprise should be forthcoming they should be given every encouragement.

Agricultural engineering is an important section of the activities of Agricultural Department and it is one in which, in our opinion sufficient attention has not in the past been devoted.

With regard to the fragmentation of soil which is an important obstacle to agricultural improvement the committee lays down in paragraph 126 of the report the general principles which should be adopted in any legislation designed to promote the consolidation of holding.

The commission suggests that occular representation is the best method of convincing the cultivating classes who are illiterate of the advantages of agricultural improvement. The committee considers that short courses in particular subjects for cultivators given on demonstration and seed farms form an excellent means of establishing closer touch between the agricultural departments and the cultivators. The publication of vernacular leaflets is of little value unless they are issued in connection with a definite demonstration of their subject matter. An interesting experiment has recently been made in Bengal and the Punjab. A demonstration train was fitted up as travelling exhibition by the Railway, public health, agriculture, industries, co-operative and Veterinary departments and carried out an extensive tour throughout these provinces.

The condition of the supply of agricultural cattle plays an important part in the development of agricultural industries. The two important factors in the cattle improvement are feeding and breeding. After an exhaustive survey of the possibilities the Committee is of opinion that no larger additions to the existing grazing areas are possible and efforts should therefore be concentrated on increasing the productivity of land already growing grass. As a supplement to or substitute for natural grazing the cutting and storage of dry grass is important. With regard to the improvement of cattle by careful breeding the aim should be to establish pure and improved types of the best cattle now available and this should not be endangered by an attempt to produce a "dual purpose" animal suitable both for draught and for milking and ghi production.

Forests play an important part in agricultural development and for that reason are described as the hand maiden of agriculture. Schemes should be devised for the improvement of grasses grown in the forest and for the encouragement of grass cutting in preference to grazing. The most promising method of establishing village forests is to hand over to village management certain more or less wooded areas now under the control of the Forest Department.

The committee recommends for better provision of veterinary aid for the eradication of cattle diseases There should be established in each district a Central Veterinary Hospital having accommodation for inpatients with a number of dispensaries serving subdivisions of the district. Better arrangement should be made for the training of Veterinary Surgeons.

The problem of Irrigation has been thoroughly dealtwith by the Irrigation Commission of 1903. The irrigation policy has progressed on the lines laid down by the Commission. Irrigation is of chief importance in Sind, the Punjab, the North-West Frontier Province, Madras, the United Provinces and Bihar and Orissa. The Committee describes the prospects of irrigation in different provinces : in Bombay particular attention has recently been paid to this subject. The Committee is of opinion that much could be done to promote the development of minor works if the example of Bombay Government were followed in other Provinces.

The agricultural prosperity is intimately connected with improvement of means of communication. Such an improvement has the effect of extending the market. The matter is of such importance that the Committee recommends floatation of loans for this purpose rather than that expenditure should be met from current revenues. Liberal grants-in-aid should be given from Provincial revenues for the construction and improvement of village roads. Roads should be designed to serve rather as feeders to the railways than as competitors for traffic.

The Government has tried to improve the system of agricultural credit by legislative enactmments such as Land Improvement Act 1883 and the Agriculturist's Loans Act of 1884. The Usurious Loans Act was amended in 1926 to enable a mortgagor to take advantage of its provisions when suing for redemption. But the

greatest hope for the salvation of the rural masses from their crushing burden of debt rests in the growth and spread of a healthy and well-organised co-operative movement based upon the careful education and systematic training of the villagers themselves. The movement has made considerable progress and this is indicated by the fact that, in 1926-27 there were in British India some 67000 Agricultural Primary Societies with over two and a quarter million members and with a total working capital of nearly 25 crores of rupees. The Co-operative Society should be the unit through which the various departments of the Government concerned with rural welfare carry on their activities.

Adequate arrangement should be made for the primary education of the people. If the teaching is to be efficient the training of teacher must be improved. The progressive adoption of the compulsory system is the only means by which the unwillingness of parents to send their children to schools and to keep them there till literacy is attained may be removed. The Committee recommends the establishment of Schools of the Punjab type where agriculture is an optional subject in the curriculum of the ordinary Vernacular Middle Schools.

The Agricultural Colleges are considered as the Apex of the whole scheme of agricultural education. They should make their influence felt in all branches of rural education.

The development of certain industries such as those for the production of agricultural implements and the poultry industry should be encouraged. The development of village industries on a co-operative basis is essential if they are to survive increasing competition.

APPENDIX H.

Report os the Taxation Enquiry Committee.

In accordance with resolution passed at a conference between the Financial representatives of the provincial and Central Government this committee was formed under the presidency of Sir Charles Todhunter with the following terms of reference :—

(a) To examine the manner in which the burden of Taxation is at present distributed between the different classes of population.

(b) To consider whether the present system of taxation is equitable and in accordance with the economic principles.

(c) To report on the stability of alternative sources of taxation.

The committee recorded oral and written evidences from nearly 300 witnesses and received contributions and memoranda from various public bodies including the Government of India, Local Government and the Board of Revenue. After due consideration of these evidences and memoranda the committee submitted its report which embodied the following main recommendations :—

(1) The standardisation of land revenue with a view to ultimate reduction of the proportion borne by land revenue to total revenues.

(2) The basis of settlement should be the annual value and the standard rate should not exceed 25 per cent. of the annual value.

(3) Imposition of higher duties on liquors.

(4) Reduction of duty on sugar with a view to lower the burden of taxation upon the poor.

(5) Removal of the export-duty on hide.

(6) Increase in the rate of income-tax when the income exceeds

ten thousand rupees and reduction of the limit of Super-tax to to thirty thousand rupees.

(7) A definite proportion of the receipt from income-tax should be transferred to the provinces.

(8) Increase in the excise duty on country-made sugar.

(9) The Committee studied the financial position of the local bodies and made the following recommendation for improving their position :—

(i) Conversion of the thathameda, the capitation tax and the chaukidari tax into sources of local revenue.

(ii) The standardisation of land revenue in order to enable the local bodies to impose local taxes.

(iii) Empowering Municipalities to tax advertisements.

(iv) Increasing the scope of taxes on entertainment and betting and allowing local bodies to have a share of the proceeds.

(v) Realisation of a fee for the Registration of marriages.

(vi) Reduction of import duty on motorcars with the object of allowing the provincial governments to impose a provincial tax to be distributed among local bodies.

APPENDIX I.

Summary of the report of the Banking Enquiry Committee.

In 1929 the necessity of a comprehensive banking enquiry was keenly felt and as a result of this a central committee and ten provincial committees were set up with respective terms of reference. The Central Committee of which Sir B. N. Mitra was the Chairman

was asked to consider and make recommendations on the following questions viz (a) regulation of banking, (b) banking education, (c) industrial banks and credit facilities for the principal industries (cotton, jute and coal) and (d) financing of foreign trade. The provincial committees were concerned with agricultural credit, credit facilities for small industries, mortgage banks, financing of internal trade and methods of stimulating the habit of investment and attracting banking deposits.

Here we are concerned with the report of the Bengal Banking Enquiry Committee. The Committee estimated the rural indebtedness of Bengal at Rs. 93 Crores and opined that long-term credit was necessary to give relief the poor peasants. The Commissioners recommended that the provision for long-term credit could be made if the Central Banks should open up land-mortgage department. The Committee examined the condition of the infant industries and recommended legislation on the basis State-aid-to Industries Acts passed in Madras, Behar and Orrissa.

The absence of orgainsed market for agricultural products drew the attention of the Commissioners and they advised the creation of such organised market by the establishment of licensed warehouses. A scheme for training, examining and certifying measures and graders was also recommended.

The committee took note of the existing loan offices and suggested an amalgamation of these offices so as to form bigger institutions.

As regards the joint-stock banks the Commissioners recommendded the half-yearly publication of balance sheets. Among other recommendations there were recommendations in connection with the establishment of a Central Bank, abolition of Stamp Duty on bills of exchange and registration of professional money-lenders.

With regard to agricultural indebtedness of India the Commissioners recommended the wide extension of co-operative movement and the setting up of an organisation through which the risks of agriculture might be distributed.

APPENDIX J

A brief Summary of the report of the Royal Commission on Labour in India.

This Commission on labour was appointed on the 4th July 1929 to enquire into and report on the existing conditions of labour in industrial undertaking and plantations in British India, on the health, efficiency and standard of living of the workers, and on the relations between the employers and the employed and to make recommendations. Mr. J. H. Whitley was the Chairman of the Commission. The report of this Commission contains numerous recommendations which cannot possibly be stated here. Here we shall summarize the important recommendations only.

Chapter II. deals with the migration of factory workers. The commissioners recommend that attempt should be made to maintain the connection of the factory workers with the village and to regularise it as far as possible.

Chapter III. deals with the employment of factory workers; the Commissioners made the following recommendations :—

(i) the system of employing and dismissing workers through jobbers should be abolished. This function should be vested either in a labour officer or in the absence of such labour officer, in the manager or in some other responsible officer. (2) The employers' association should co-operate with the Trade Unions in stamping out bribery. (3) Application for leave by the labourers should be entertained under definite conditions. (4) Efforts should be made by the employers and by the municipalities for improving the education of the workers and their children.

Chapter IV. discusses the hours of labour in factories and contains the following recommendations :—

(1) the weekly limit of the hours of work in case of perennial factories should be reduced to 54 and the daily limit to

10. (2) the Statutory interval should not ordinarily be less than an hour in the aggregate. (3) The spread over should not exceed 13 in the case of adult persons and $7\frac{1}{2}$ in the case of children. The rest period should include hours between 7P.M. to 5-30A.M. for children and 10P.M. and 5 A.M. for women. The maximum daily hours for children should be limited to 5. (4) A week of 60 hours should be a limit to be exceeded only in most exceptional cases.

Chapter V. the Commissioners made the following recommendations regarding the conditions of labourers in factories :—

(1) The rules under Sc. 37 of the Factories Act which requires factories to be cleaned annually should be enforced in all cases. (2) The Factories should be required to make separate and sufficient latrine accommodation for males and females. (3) The provision of water and places for washing should be obligatory for workers in dirty processes. (4) Subordination of Inspectors of factories to Directors of Industries is undesirable. (5) Women factory inspectors are desirable in every province.

Chapter VI. and Chapter VII. deal respectively with seasonal factories and unregulated factories.

In Chapter IX. the commissioners made the following recommendations regarding miners :—

(1) In the Manganese mines steps should be taken to apprise the workers of the repeal of the workmen's breach of contract act. (2) the coal industry should aim at eliminating recruiting cost. (3) the direct working should substitute the raising contract. (4) A labour officer should be appointed in each mine. (4) Wages should not be paid on rest day. (6) Weekly hours above ground should be limited to 54. (7) No child under the age of 14 years should be permitted to work in or about the mines. (8) Workers should have the same number of nominees on the Mining Board as employers. (6) Compulsory primary education should be introduced among workers. (10) There should be a resident medical officer at Giridih.

Chapter X. deals with the Railways. The important recommendations made by the Commissioners may be summarised thus :—

(1) Appointments and dismissals of workers in the Engineering Department should be entered in a register. (2) The system of selection boards should be introduced for selecting shunters, drivers and firemen. (3) Sons and near relatives of railway servants should have a special claim to enter the service. (4) The system of recruitment in the mechanical workshops through labour bureau should be encouraged. (5) In case an worker is declared medically unfit for a particular post every effort should be made to find for him other work. (6) steps should be taken for the progressive elimination of any form of racial discrimination with regard to appointment and promotion. (7) Steps should be taken to fix standard rates for similar classes and grades with due reference to the economic condition of the district. (8) Employers drawing Rs. 20 or over per month should be compelled to join a provident fund. (9) Except in cases of emergency all continuous workers should enjoy weekly rest of not less than 24 hours. (10) District or Divisional officers should have the power of terminating service. (11) A confirmed employer when charged with an offence should be given a charge sheet returnable within 7 days. (12) A more generous policy in respect of recognition of trade unions is desirable. (13) A Joint standing Central Board consisting of representations of the agent, and workers elected by the Indian Railway Conference Association and All-India Railwaymen's Federation should be charged with the consideration and settlement of references from Railway Councils and certain general questions common to all railways. (14) A central Board should consider the constitution and function of the various bodies. (15) The medical department should have charge of health and sanitation.

The Commissioners also made several recommendations concerning transport services and public works :—

(1) The licences granted under Sc. 24 of the Indian Shipping

Act should not be renewed. (2) Local Governments should be empowered by law to frame safety Regulations for docks. (3) The practice of nominating a representative of labour on Port Trusts should be extended to all major ports. (4) The Tramway Companies should restrict working hours to 54 a week.

While dealing with the income of industrial workers the Commissioners recommended as follows :—

(1) Before the minimum wage-fixing mechinery can be set up the condition of industries should be investigated and if such investigation shows the necessity of minimum wage-fixing machinery legislation should be made for setting up such machineries. (2) Legislation regarding deduction from wages of fines is necessary and desirable. (3) A general policy should be adopted of restricting the facilities for the sale of liquor in all cities and industrial centres.

On the question of indebtedness the following recommendations were made.

(1) The co-operative credit organisations should be developed among workers. (2) The Salary aud wages of workmen receiving less than Rs. 300 per month should be exempted from attachment. (3) Workers' contributions to the provident funds maintained by employers and certified by the Government should be free from attachment. (4) Employers should adopt a system of weekly payment. (5) In textile industries, railway and engineering workshops and iron and steel works the operatives should get their wages at intervals not exceeding 16 days.

With regard to the problem of health and welfare of the industrial workers the Commission recommended as follows :—(1) India should maintain an Institute of Nutrition with a Director and sufficient number of qualified assistants. (2) Industrial health research should be entrusted to the Indian Research Fund Associations. *(3) Comprehensive Public Health Acts should be* passed in all provinces. (4) Care should be taken to supply pure water to the workers. (5) The Railway administration and the provincial health department should try their utmost for the prevention malaria. (6) Maternity benefit legislation should be

enacted on the lines of the scheme which is in vogue in Bombay and Central Provinces. The Commission made the following recommendations in connection with housing of industrial workers.

(1) Small blocks of two or more rooms in partitioned units with windows and roof ventilation should be used extensively. (2) Bathing, washing houses and latrines of approved types should be built near each block. (3) The government should announce their wiliingness to subsidise employers' housing scheme approved by them. (4) Co-operative building societies should be encouraged.

On the topic of workmen's compensation the Commission made the following recommendation :—

(1) The scope of the **workmen's compensation act** should be extended. (2) The minimum compensation for death in the case of adults should be Rs. 600 and for complete permanent disablement Rs. 840.

In Chapter XVII. which deals with Trade Unions we find the following important recommendations :—

(1) Recognition should mean that a union has the right to negotiate with the employers in respect of matters affecting either the common or individual interest of its members. (2) Union leaders should endeavour to give as many members as possible some share in the work of the union, (3) All unions should be able to have their account audited by public officers free of charge. (4) A registered trade union should have the right to initiate and conduct co-operative credit and supply societies.

Chapter XVIII contains recommendations concerning industrial disputes :—

(1) The employers should co-operate with the trade union for the establishment of works committees. The management should be in sympathy with the development of such committees. (2) Some statutory machinery will be necessary in order to deal with industrial disputes. (3) Sec. 13 of the Trade Dispute Act should be amended and every Provincial Government should have an officer whose duty it would be to undertake the work of conciliation.

With regard to the plantation the following recommendations were made by the commission :—(1) No further legislation is necessary to make breach of contract of service a criminal offence. (2) Prohibition regarding recruitment for Assam in particular localities should be withdrawn. (3) Necessary control should be exercised over the forwarding of recruits to the Assam plantations. (4) The Government of India should have the right to frame rules regarding transit arrangements. (5) There should be a Protector of immigrants in Assam appointed by the Government to look into the interest of immigrants. (6) The tea industry should give publicity to the advantage which plantations have to offer to the inhabitants of other provinces. (7) Future emigrants should have the right to repatriate at the expense of the employer after the first three years. (8) The establishment of a statutory wage-fixing machinery in the Assam plantation, if practicable is desirable. (9) Wages should be paid direct to the worker and not through the Sardar. (10) All plantation managers should take active measures in regard to anti-malarial work. (11) Tubewell should be constructed where necessary. (12) Adequate latrine accommodation should be required in factories on plantations. (13) Employment of children before the age of 10 years should be prohibited. (14) Board of health and welfare should be established for convenient planting areas.

In the chapter on statistics and administration we find the following important recommendations :—(1) Statistics should be compiled separately in respect of perennial and seasonal factories. (2) The Factories Act should be amended so as to make it possible to call for returns in respect of wages. (3) Planters in all provinces should be compelled by statute to give statistics relating to the labour forces employed by them. (4) The University should consider the possibility of making enquiries into labour condition as a necessary part of the Study of Economics. (5) A Labour Commissioner should be appointed in every province except Assam. He should be responsible for the administration of all labour subjects and for the publication of labour statistics. In the last chapter the following important recommendations are found :—

(1) The provincial legislation regarding labour should not interfere with the central legislation. (2) Labour should have adequate representation in the central and provincial legislatures. (3) Election by trade unions should be the

best method for securing representatives. (4) The future constitution should provide for an industrial council where the representatives of labour and employers should meet to discuss labour problems. (5) The possibility of making labour legislation both a federal and provincial subject should receive consideration.

APPENDIX K.

Tables.

(1) Table showing the density of population in India and in different provinces.

	Area		Population		Density
India ...	1800,000 sq. miles		32 crores		180
Bengal ...	82000	„	4·8	„	580
Bombay ...	187000	„	2·7	„	140
Behar & Orissa ...	112000	„	3·8	„	340
Assam ...	61000	„	·8	„	130
U. P. ...	112000	„	4·7	„	410
Burma ..	234000	„	1·3	„	60
The Punjab ...	137000	„	2·5	„	180
C. P. & Berrar ...	113000	„	1·6	„	120
N. W. F. Province	39000	„	·5	„	130

(2) A table showing the percentages of the Urban population in different provinces.

Bengal	...	...	6·5	P. C.
Bombay	...	...	23	„
Madras	...	...	12·5	„
The Punjab	...	...	11·5	„
U. P.	...	...	10·5	„
C. P.	...	...	9	„
Burma	...	...	10	„
Behar & Orissa		...	4	„
Assam	...	...	3	„

(3) A table showing the increase in population in the decade 1911-20.

	Birth rate (per thousand)		Death rate	Increase
India ...	32	„	31	+ 1
Bengal ...	32·8	„	31·1	+ 1·7
Bombay ...	34·2	„	36·9	+ 2·7

	Birth rate (per thousand)		Death rate	Increase
adras ...	30·7	„	25·6	+5·1
Bihar & Orissa	38·8	„	35·2	+3·6
Burma ...	33·6	„	27·6	+ 6
C. P. & Berrar	45·5	„	44·2	+1·3
The Punjab	43·8	„	36·6	+7·2
U. P.	42·2	„	40·2	+ 2

(4) A table showing the distribution of population by religions.

		India		Bengal	
1.	The Hindus ...	21·6	crores	2	crores
2.	The Mussalmans ...	6·90	„	2·5	„
3.	Buddhists ...	1·16	„	·0266	„
4.	The Jains ...	·12	„	·0013	„
5.	The Christians ...	·48	„	·0147	„
6.	The Shikhs ...	·32	„	·0002	„

(5) A table recording the percentage of literate population.

	Male	Female
India ...	13	2·1
Bengal ...	18	2·1
Bombay ...	16	2·7
Madras ...	17	2·4
Burma ...	51	11
Assam ...	12	1·4
Behar & Orissa ...	9·6	·6
The Punjab ...	7·6	·9
U. P. ...	7·3	·7
C. P. & Berrar ...	8·7	·9
N. W. F. Province ...	8	·1

(6) *A table showing the number of workers in different occupations.*

1. Agriculture	...		23·2 crores	
2. Industry	...		3·3	„
(a) Textile	...	·78	crores.	
(b) Wood	...	·36	„	
(c) Food	...	·31	„	
(d) Dress	...	·74	„	
(e) Metal	...	·18	„	
(f) Building	...	·17	„	
(g) Ceramics	...	·22	„	
Trade	...	1·81	„	
(a) Banks	...	·10	„	
(b) Textile	...	·13	„	
(c) Food stuff	...	·93	„	
Profession	...	·5	„	
(a) Religion	...	·25	„	
(b) Law	...	·03		
(c) Medicine	...	·06	„	
(d) Instruction	...	·08	„	
(e) Letters, Arts	...	·08	„	
Transport	...	·43	„	
Public administration	...	·26	„	
Domestic Service	...	·46	„	
Public Force	...	·22	„	
Mining	...	·05	„	

(7) *A table containing the variety of crops.*

Chief crops :—1922-23 : Acres : million.

		area.	yield.	
1.	Rice	82·4	33·7	tons
2.	Wheat	30·8	1·0	„
3.	Sugar-cane	2·7	3·0	„
4.	Linseed	3·3	·5	„
5.	Cotton	21·8	5·0	„
6.	Jute	2·0	5·4	„
7.	Tea	·7	310·0	„

(8) A table containing the number of Factories and Workmen in those Factories.

	Industries.	Factories.	Workmen.	
1.	Special Products	2250	8·3	lacs.
2.	Mines	1,005	2·7	„
3·	Quarries	250	·3	„
4.	Textiles	2900	7·7	„
5.	Leather	250	·35	„
6.	Wood	450	1·7	„
7.	Metal	1000	·82	„
8.	Glass	1100	1·1	„
9.	Chemical	1200	1·1	„
10.	Food	2600	1·1	„
11.	Dress	400	·12	„
12.	Furnitures	150	·17	„
13.	Buildings	400	·30	„
14.	Transport & Communication	500	·16	„
15.	Physical Forces	150	1·5	„
16.	Luxury	1000	·59	„

(9) Particulars of Indian Debt 1927.

(a)	Loans	Rs. 374·48 Crores.
(b)	Treasury bill in the Paper Currency Reserve	Rs. 41·47 „
(c)	Other obligations: Post Office Savings Banks	Rs. 29·12 „
(d)	Cash Certificate	Rs. 27·04 „
(e)	Provident Funds	Rs. 51·03 „

(10) Number of Banks.

(1)	The Imperial Bank ...	1
(2)	The Indian Joint Stock Banks ...	29
(3)	Exchange Banks ...	18
(4)	Indian Co-operative Banks ...	8